Report of the Treasurer 2011-12 Fundraising and Finance

PRINCETON UNIVERSITY

Princeton University Highlights

Fiscal years ended June 30

FINANCIAL

(dollars in thousands)	2012	2011
Principal sources of revenues		
Tuition and fees (net)	$ 97,953	$ 98,443
Government grants and contracts	248,968	252,556
Private gifts, grants, and contracts	78,970	72,416
Investment earnings, including unrealized gains or losses	480,191	3,026,324
Principal purposes of expenditures		
Educational and general	1,101,089	1,046,015
Auxiliary	104,339	116,177
Summary of financial position		
Assets	21,231,779	20,909,343
Liabilities	3,885,118	3,656,781
Net assets	17,346,661	17,252,562
Net assets		
Unrestricted/designated	6,670,791	6,673,136
Temporarily restricted	8,953,081	8,912,183
Permanently restricted	1,722,789	1,667,243
Total	**$ 17,346,661**	**$ 17,252,562**

STUDENTS

	2012	2011
Enrollment		
Undergraduate students	5,173	5,149
Graduate students	2,584	2,545
Degrees conferred		
Bachelor degrees	1,248	1,219
Advanced and all other degrees	832	815
Annual tuition rate		
Undergraduate	$ 37,000	$ 36,640
Graduate	37,000	36,640

FACULTY

	2012	2011
Full-time equivalent	958	943

"Princetonians have a long history and tradition of giving back. When alumni are in a position to help the next generation, as they were helped by those who went before, they step up. They know that the University is committed to excellence and will steward their money wisely."

Loyalty and Leadership

Letter from the Treasurer

It is my pleasure to present the audited financial statements for Princeton University for the fiscal year ending June 30, 2012. It was another strong year for Princeton in advancing its mission of teaching and research. The Princeton Neuroscience Institute building is nearly complete and will be ready to occupy in the fall of 2013, and we broke ground on the future home of the Andlinger Center for Energy and the Environment. And last spring, Princeton ventured into offering classes beyond campus confines via the online platform Coursera, a company founded by two Stanford professors.

June 2012 also marked the successful conclusion of the *Aspire* fundraising campaign that reaffirmed the loyalty and generosity of our alumni and friends, who gave a record-breaking total of $1.88 billion. The following special section highlights the legacy of fundraising and its significant contributions to the University's financial health.

The University continues to recover from the Great Recession of 2009 and the roughly 24% decline in endowment value. After exceptional returns in fiscal years 2010 and 2011 of 14.7% and 21.9%, respectively, the fiscal year 2012 return of 3.1% reminded us that the world economy is still recovering and that volatility is here to stay. This document includes a comprehensive report on investments that summarizes the policies and approaches by which Andy Golden and his team at PRINCO so expertly steward the endowment for the long term.

Our steady focus on financial sustainability and stewardship continues to serve the institution well in its governance processes and resource allocations. The post-recession "new normal" saw all departments meeting their savings targets. The campus committee "Strengthening University Management and Resources" continues to identify and pursue efficiencies in operations in order to maximize the resources available to support teaching, research, and the student experience.

And lastly, in September 2012 Shirley Tilghman announced that she would be stepping down as president at the end of this academic year. For a little over a decade Shirley has lived her charge to students at Commencement—to "aim high and be bold"—in leading Princeton. During her tenure and under her wise leadership, the University expanded its undergraduate student body and launched the four-year college system; increased the number of students on financial aid; and created a master plan for the future development of the campus. Whitman College was built along with the Lewis Library, Sherrerd Hall, and Frick Chemistry Laboratory. The Princeton Neuroscience Institute and the Bridge Year Program were conceived and initiated. The University also endured one of the most difficult financial recessions in decades and responded with a thoughtful, balanced budget savings plan that focused on preserving the resources needed to emerge from this period with renewed strength and vitality.

We will miss Shirley for her aspirational leadership and the legacy that she leaves us, and I am personally grateful for the opportunity to have served with her in strengthening Princeton's financial health.

We look forward to the years ahead with a new president, building on the loyalty of our alumni and the leadership that has served us so well in the past.

Carolyn N. Ainslie

Carolyn N. Ainslie
Vice President for Finance and Treasurer

Fundraising and Finance

Giving Forward

IN 1747, Provincial Governor Jonathan Belcher told trustees of the College of New Jersey that the institution—now Princeton University—could survive only through the support of private gifts. He encouraged them to raise funds for a main building and a house for the president, favoring Princeton as the location. Belcher, a Harvard graduate, "adopted" the fledgling school, and promoted it wherever he could.

Founding Trustee Gilbert Tennent and fourth president Samuel Davies embarked on a trip to Britain in 1753 and successfully appealed to their former countrymen to support a college building. They offered to name it for Belcher, but he declined and suggested it be named in memory of King William III, House of Nassau.

Just before the College moved from Newark to Princeton and into Nassau Hall in 1756, Belcher donated his own library of 474 volumes, making the college library one of the largest in the colonies.

Belcher's story has been repeated many times over the last 265 years: An enthusiastic, yet modest volunteer works to strengthen Princeton for the future by inspiring others to give as well as providing his own transformative gift.

Aspire Co-Chairs Nancy B. Peretsman '76 and Robert S. Murley '72

Aspiring to Sustain Excellence

"The Aspire *campaign—and the devotion to Princeton it embodies—has allowed us to be an even stronger University, both for our faculty and students, and for the nation and the nations that we ultimately serve."*

—President Shirley M. Tilghman

Today, campaigns are a catalyst for support by volunteers, alumni, parents, and friends of the University. At the conclusion of the five-year *Aspire* campaign in June 2012, more than 65,000 donors—including 77 percent of all undergraduate alumni—had contributed 271,559 separate gifts totaling $1.88 billion—substantially more than was raised by any other campaign in Princeton's history.

"Campaigns offer us a chance to assess the University's needs and ask alumni for their support to help us strengthen and expand in key areas, including such hallmark programs as our financial aid initiative," said Elizabeth Boluch Wood, vice president for development. "Princetonians have a long history and tradition of giving back. When alumni are in a position to help the next generation, as they were helped by those who went before, they step up. They know that the University is committed to excellence and will steward their money wisely."

65,120
TOTAL DONORS
have strengthened Princeton for the future.

Aspire focused on a carefully determined set of priorities: strengthening the core Princeton experience; providing unrestricted funds through the Annual Giving program for efforts such as the University's financial aid program; and enhancing the University's capacities in engineering and the environment, the creative and performing arts, neuroscience, and global citizenship. Among other purposes, gifts created 26 new professorships, 120 new undergraduate scholarships, and 25 new graduate fellowships.

"The long-standing generosity and loyalty of Princeton alumni and friends have made an incredible difference in the University's financial outlook," said Carolyn N. Ainslie, vice president for finance and treasurer. She noted that the global financial crisis hit one year after the University launched the *Aspire* campaign. Yet the largely volunteer-run effort, under the leadership of President Shirley M. Tilghman, exceeded its $1.75 billion goal.

Among other purposes, gifts created 26 new professorships, 120 new undergraduate scholarships, and 25 new graduate fellowships.

Capital and Endowment Gifts

"By increasing the 'porosity' of the campus through increases in both export and import of people and ideas, we will ensure that Princeton's scholarly energy will be felt throughout the world."

—*Princeton in the World* report by President Shirley M. Tilghman and Provost Christopher L. Eisgruber '83

Fundraising drives at the College of New Jersey in the 18th and early 19th centuries were primarily one-time efforts for specific, narrowly defined purposes. Uncomfortable with these ad hoc unrelated solicitations, Vice President John Maclean Jr. (who one year later became president) sought gifts and established an endowment in 1853.

The earnings from endowment gifts provide a permanent source of income for the University. These earnings can be unrestricted or designated by the donor for use in support of specific programs and initiatives. Capital gifts support the new buildings and major renovations required to expand into new areas of teaching and research.

Today, returns on investments provide about one-half of the income in the University's $1.5 billion annual operating budget, up from about one-fifth 30 years ago. As a result, the University is much less dependent on tuition, room, and board increases than it was in the 1970s and 1980s. In fact, Princeton's fiscal year 2014 total fee package—the sum of tuition, room, and board—is below the fiscal year 2013 fee packages of all of its Ivy-Plus peers (the eight Ivy League schools, plus Stanford University and the Massachusetts Institute of Technology).

271,559

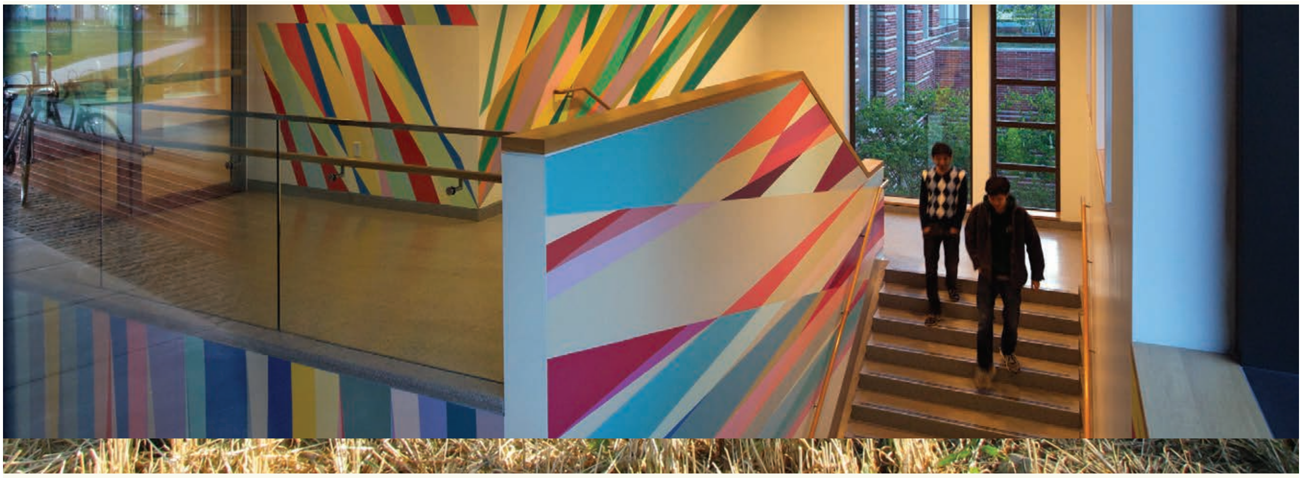
TOTAL GIFTS

were made to *Aspire* from alumni, parents, friends, corporations, and foundations.

During the *Aspire* campaign, $1.63 billion was raised from capital and endowment gifts. Peter B. Lewis, a 1955 alumnus and University trustee, donated $101 million to establish the Lewis Center for the Arts, through which Princeton is expanding its offerings in visual arts, music performance, dance, theater, and creative writing.

Gerhard (Gerry) R. Andlinger, a 1952 alumnus, gave $100 million to create the Andlinger Center for Energy and the Environment, *(Continued on page 6)*

OPERATING BUDGET REVENUE FY12



Capital and Endowment Gifts

(Continued from page 5)

which focuses on sustainable energy development, conservation, and environmental protection in the School of Engineering and Applied Science.

Additional funds were raised for support in priority areas that include:

- The Fellows in the Creative and Performing Arts, a new program to bring visiting artists to campus.

- The Keller Center for Innovation in Engineering Education, to train leaders who can harness technology to solve societal problems.

- The Grand Challenges Initiative, a collaboration among the School of Engineering and Applied Science, the Woodrow Wilson School of Public and International Affairs, and the Princeton Environmental Institute that will allow faculty and students to work together to develop sustainable energy, combat emerging infectious diseases, and overcome natural resource limitations in developing countries.

- Two major funds for groundbreaking research: the Eric and Wendy Schmidt Transformative Technology Fund, for the development of new technologies that have the potential to enable significant scientific advances; and the Project X innovation fund endowed by Lynn Shostack for engineers who wish to pursue projects that may be outside their formal area of expertise or are too speculative to attract conventional funding.

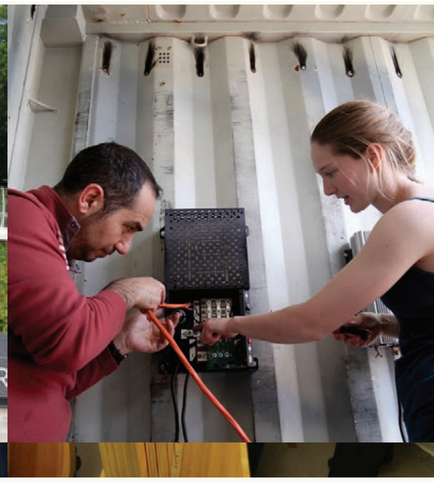
- Centers of research within the Princeton Neuroscience Institute to better understand the physiology behind human behavior and to discover information that may aid in the battle against neurological disorders, including: the McDonnell Center for Systems Neuroscience; and the Scully Center for the Neuroscience of Mind and Behavior.

- Initiatives that help give students a more international and multicultural perspective and that enable the exchange of ideas across national borders. One such initiative is the Bridge Year Program, which allows a small group of incoming freshmen to defer their enrollment for a year to engage in public service while immersed in another culture.

$254.5M

FROM ANNUAL GIVING

which set multiple records during *Aspire*, bringing AG's total since its inception in 1940 to over $1 billion.




Capital and Endowment Gifts

(Continued)

- The Fung Global Fellows Program, which brings promising early-career faculty members from around the world to campus, and the Niehaus Center for Globalization and Governance within the Woodrow Wilson School of Public and International Affairs, which brings together students and faculty from economics, history, sociology, and political science to explore the academic and policy dimensions of globalization and international governance.

- The Sharmin and Bijan Mossavar-Rahmani Center for Iran and Persian Gulf Studies, providing a comprehensive interdisciplinary approach to understanding that region, with special attention to its significance for the contemporary world.

- Two newly supported centers—the Griswold Center for Economic Policy Studies and the Julis-Rabinowitz Center for Public Policy and Finance—to give leaders the knowledge they need to create sound public policies.

- Freshman seminars and opportunities for community service.

$374.4M

IN FY12

was the highest one-year fundraising total in Princeton's history.

Donors also made capital gifts to back construction of the Lewis Center for the Arts and its Wallace Dance Building and Theater, and to fund Sherrerd Hall (the new home of the Department of Operations Research and Financial Engineering and the Center for Information Technology Policy); Peretsman-Scully Hall, where the Department of Psychology will relocate in the fall of 2013; the adjacent Princeton Neuroscience Institute; the new Butler College; renovated and new athletic facilities; and Streicker Bridge, providing an elegant pedestrian path linking the science complexes on either side of Washington Road.

Donors also made capital gifts to back construction of the Lewis Center for the Arts and its Wallace Dance Building and Theater, and to fund Sherrerd Hall.

Annual Giving

"Annual Giving is about all of us together, the mighty and the modest, creating exceptional opportunities at Princeton."

—Rajiv Vinnakota '93, Annual Giving Chair, 2007-2009

Princeton began making systematic annual appeals to alumni for unrestricted funds in 1940. That year, volunteers raised $80,000; by 1977, the Annual Giving effort was hitting a goal of $5 million.

In the final year of the *Aspire* campaign, Annual Giving set a new record by raising $57.2 million. Over the course of the campaign, Annual Giving twice set new dollar records, with alumni, parents, and friends contributing a five-year total of $254.5 million.

A total of 85 classes, from 1924 to 2011, participated in the *Aspire* campaign. During the 2010-2011 Annual Giving campaign, 61.3 percent of undergraduate alumni participated, surpassing 61 percent for the first time since 1969 with a record 36,022 alumni donors.

Also in the final year of the campaign, Princeton parents raised a record $3.2 million for Annual Giving. And the largest number of graduate alumni donors in the history of the University participated, with 3,027 contributing nearly $1.6 million.

Since 1940, Annual Giving has raised more than $1.01 billion for the University. Princeton consistently has the highest Annual Giving participation rate in the Ivy League and is frequently cited as one of the top schools in the country in this measure.

145

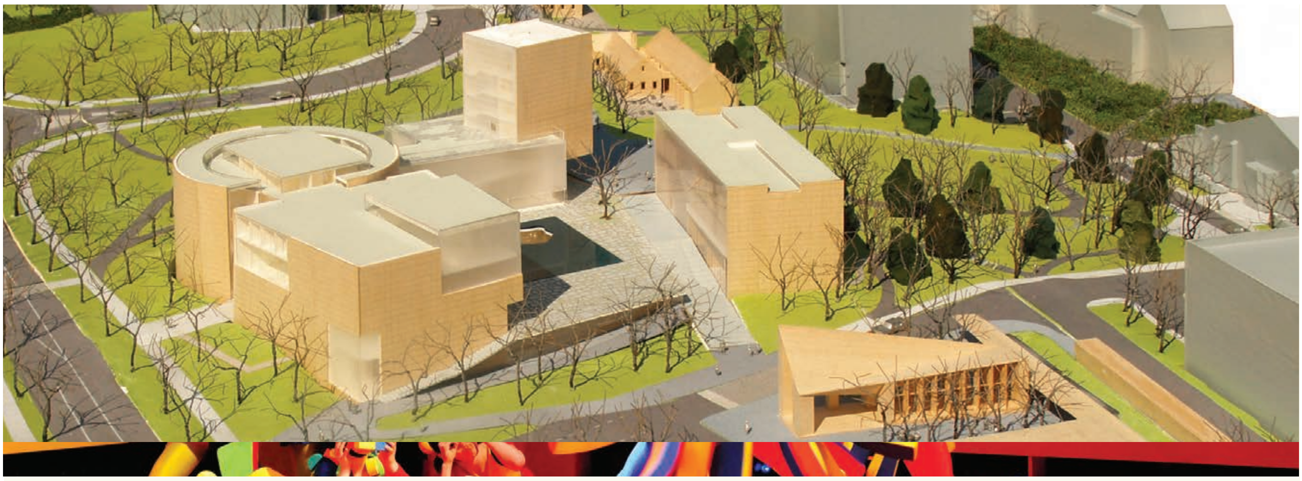
SCHOLARSHIPS AND FELLOWSHIPS

were created to support promising undergraduate and graduate students.

"This unrestricted support is essential to the University's financial stability and flexibility," Ainslie said. "The participation and loyalty of our alumni, parents, and friends really differentiate us."

The unrestricted funding is particularly crucial to the University's financial aid program. Princeton admits undergraduates regardless of their financial circumstances. Through a pioneering program launched in 2001, students receive grants—which need not be repaid—rather than loans. About 60 percent of undergraduates are on financial aid, up from 40 percent prior to 2001. The average grant for students in the entering Class of 2016 was $37,600; for the Class of 2001, it was $15,064. Princeton students have a much lower average debt at graduation than their cohort at peer institutions.

To sustain the University's commitment to this policy, general funds—including those raised through Annual Giving—are designated to meet any remaining demands on the financial aid budget after endowed and other restricted funds are spent. Support for the financial aid program during the *Aspire* campaign helped the University meet its aid commitments during the recent economic downturn.



Looking Ahead

"We aspire to create a distinctive educational model that seamlessly integrates the creative and performing arts into an undergraduate liberal arts program that is second to none."

—President Shirley M. Tilghman

In January 2013, Moody's Investors Service issued a negative short-term outlook for the entire U.S. higher education sector. Since 2009, research universities, including Princeton, had received a stable outlook because of their diverse sources of revenue. But this report made dire near-term prognostications for all universities.

However, Vice President Ainslie said she is convinced that with its extremely loyal alumni, parents, and friends, and through careful stewarding of the resources from the *Aspire* campaign, Princeton will buck this trend.

77.3%

PARTICIPATION

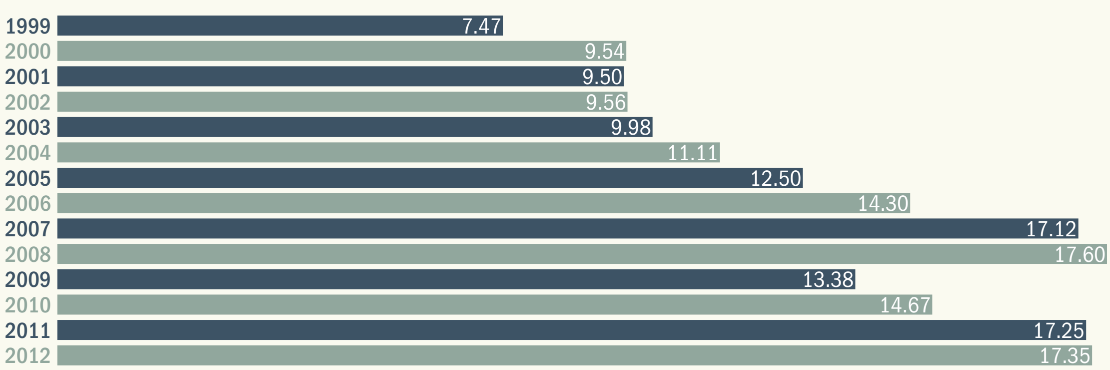
was achieved by undergraduate alumni from 85 classes.

Princeton's net assets for the 2012 fiscal year increased by $94 million, primarily due to an operating budget surplus of $81 million or 5.8 percent of total operating revenues. Total net assets of $17.35 billion at year-end were just $250 million short of the record high set in 2008.

The return of 3.1 percent from the University's managed investment portfolio was on par with that of its peer group of large university endowments. The endowment spending rate, which had risen above policy levels in 2010, had *(Continued on page 10)*

NET ASSETS

(dollars in billions)



Looking Ahead

(Continued from page 9)

declined to 4.4 percent in 2012, and stands at 4.7 percent for 2013—just below the midpoint of the spending policy band.

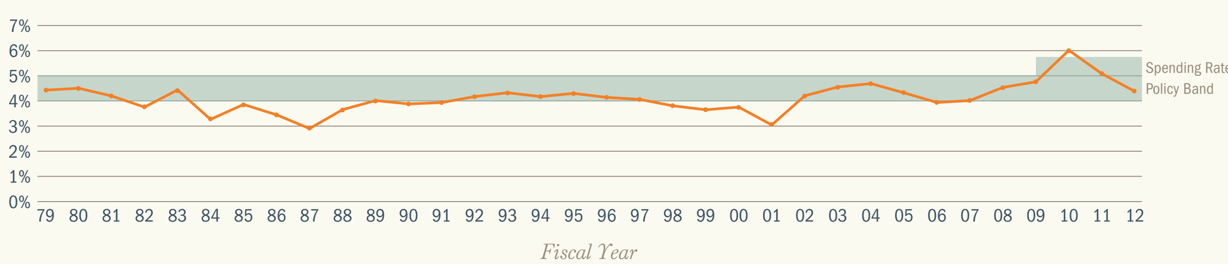
As noted in the Moody's report, a small group of private institutions, including Princeton, have chosen not to exercise their pricing power, despite high student demand and the willingness of families to pay more. Instead, Princeton is using the flexibility made possible by fundraising and the endowment to meet the full financial need of all admitted students and to increase the socioeconomic diversity of the student body.

At the conclusion of the *Aspire* campaign, President Shirley M. Tilghman said, "The success of this collective effort to strengthen the University to better serve the nation and the world is a tribute to the dedication, enthusiasm, and generosity of our alumni, parents, and friends. In countless ways, the *Aspire* campaign has reinforced our traditional strengths while allowing us to break new ground and prepare to achieve our highest aspirations for the years ahead."

Vice President Ainslie echoed that optimistic outlook. "While the economic forecast in general may not be as positive as we had hoped, the future for Princeton looks very bright. With the infusion of funds from the *Aspire* campaign and the careful stewarding of our resources, we expect not only to be stable, but to finance the ambitious plans already under way and aspirational initiatives yet to be imagined that will define Princeton's excellence in the years to come."

26
ENDOWED PROFESSORSHIPS
in multiple disciplines will recognize and help recruit the finest teacher-scholars.

ENDOWMENT SPENDING RATE



Financial Statement Overview

Letter from the Controller

Fiscal year 2012 was a year of extraordinary fundraising at Princeton, with the culmination of the five-year *Aspire* campaign. Annual Giving raised $57 million, setting a new record, and *Aspire* raised gifts of $255 million for the fiscal year and $1.88 billion in total, substantially more than any prior fundraising campaign. Princeton has a long history of successful fundraising, and these achievements were truly a testament to the generosity of its loyal alumni.

Princeton managed to sustain its strong financial condition during 2012, as the effects of the 2008–2009 financial crisis faded further away. Net assets for the fiscal year ended June 30, 2012, increased by $94 million, primarily due to an operating surplus of $81 million, or 5.8 percent of total operating revenues. Total net assets of $17.35 billion at year-end were just $250 million shy of the high-water mark set in 2008. The return of 3.1 percent from Princeton's managed investment portfolio was modest, but on par with that of its peer group of large university endowments. The University's endowment spending rate, which had risen above policy levels in 2010, continued its decline, to 4.4 percent in 2012, and is now below the midpoint of the spending policy band and in line with Princeton's conservative fiscal management record.

The University was successful in following its annual practice of issuing tax-exempt bonds for capital expenditure and renewal purposes. Princeton's bonds continued to draw high demand as a safe haven for conservative investors. In conjunction with its $250 million 2011 Series bond issue, Princeton again received the highest attainable credit ratings from both Moody's Investors Service and Standard & Poor's agencies, affirming the University's stellar credit standing.

ACCOUNTING PRINCIPLES

Princeton University's financial statements, which follow herein, are presented in accordance with generally accepted accounting principles (GAAP) set forth by the Financial Accounting Standards Board (FASB) as supplemented by the American Institute of Certified Public Accountants (AICPA) audit and accounting guide for not-for-profit entities. In addition to general accounting guidance, the statements reflect the impact of specific reporting requirements of not-for-profit organizations prescribed by FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*, on the subjects of accounting for contributions and the format of general-purpose external financial statements. Compliance with AICPA guidance includes the consolidation of wholly owned subsidiaries and significant trusts in which the University is a beneficiary, as well as the reporting of tuition discounts, primarily fellowships and scholarships, as reductions of tuition revenue. The financial statements are fully

Princeton's bonds continued to draw high demand as a safe haven for conservative investors. In conjunction with its $250 million 2011 Series bond issue, Princeton again received the highest attainable credit ratings from both Moody's Investors Service and Standard & Poor's agencies, affirming the University's stellar credit standing.

Financial Statement Overview

(Continued)

comparable, including prior-year data on the consolidated statements of activities.

FINANCIAL REPORTS

The principal objectives of the accounting standards are to provide consistency among the financial statements of not-for-profit organizations and to make them more comparable to those of the for-profit sector. The standards require not-for-profit organizations to provide, for their external financial reports, a statement of financial position, a statement of activities, and a statement of cash flows. The organization's resources are classified among three categories of net assets, that is, gross assets less related liabilities, based solely on the existence or absence of donor-imposed restrictions. Amounts for each of the three classes of net assets—permanently restricted, temporarily restricted, and unrestricted—are displayed in a statement of financial position, and the amounts of change in each category are displayed in a statement of activities.

Permanently restricted net assets are those resources that may never be spent, mainly endowment funds. They are generally the result of gifts and bequests with donor stipulations that they be invested to provide a permanent source of income. They may also include gifts-in-kind, such as works of art or real property. Temporarily restricted net assets include those that, again by donor stipulation, must be invested only for a certain period of time or may be used in a future period for a specified purpose. Temporarily restricted net assets also include income and gains on temporarily and permanently restricted funds, absent explicit donor stipulations to the contrary, until appropriated for expenditure. Unrestricted net assets may be expended for any purpose and result from gifts, other institutional resources, and income and gains on those funds.

Statement of Financial Position The statement of financial position is a snapshot of the University's resources and obligations at the close of the fiscal year and is comparable to the document commonly referred to as the balance sheet. Assets on the statement, which totaled $21.2 billion as of June 30, 2012, are presented in decreasing order of liquidity, from cash to property, the least liquid of the University's assets. As of June 30, 2012, managed and other investments totaling $17.3 billion made up 82 percent of total assets, and property net of accumulated depreciation totaling $3.0 billion made up an additional 14 percent. Other significant assets were contributions receivable, which totaled $344 million, and educational and mortgage loans receivable, which totaled $384 million.

Liabilities, which totaled $3.9 billion as of June 30, 2012, are also presented in order of anticipated time of liquidation. Indebtedness to third parties totaling $2.9 billion, which primarily includes loans to finance the construction, renovation, and maintenance of University facilities and bonds issued for working capital purposes, made up 74 percent of total liabilities as of June 30, 2012. Also included are liabilities under unitrust agreements totaling $81 million, which represent the estimated amounts payable to donors under the University's planned giving programs. The accounting rules require donees to record a liability for the present value of the expected lifetime payments to donors and to recognize the net amount received as a contribution in the year of receipt.

Net assets, which totaled $17.35 billion as of June 30, 2012, are calculated as total assets less total liabilities, and are classified among three categories—unrestricted, temporarily restricted, and permanently restricted—as discussed above. Unrestricted net assets, which totaled $6.7 billion as of June 30, 2012, include gifts and other institutional resources that are not subject to explicit donor-imposed restrictions. In accordance with the accounting rules, certain unrestricted net assets have been partially earmarked, or designated, according to their intended use by the University. Temporarily restricted net assets, which total $9.0 billion, include promises to give that are receivable in future years as well as donor-restricted contributions, the purpose of which has not yet been fulfilled. A significant portion of temporarily restricted net assets comes from the income and gains on endowment assets that have been reinvested. Permanently restricted net assets, which total $1.7 billion, include endowment gifts that cannot be spent and funds held in perpetual trust by others.

Statement of Activities The statement of activities is a summary of the income and expenses for the year, classified according to the existence or absence of the restrictions described above. Sources such as tuition, sponsored research, and auxiliary activities are normally shown as unrestricted income, although income from certain gifts or sponsored agreements may be includible in any of the three classes of income, depending upon the donor's specifications. Gifts to endowment, for example, are permanently restricted. Income from temporarily restricted sources is reclassified as unrestricted income when the circumstances of the restriction have been fulfilled. All expenditures are made from unrestricted net assets, since an amount cannot be spent until all restrictions on its use have been removed.

The statement of activities is presented in two sections, operating and nonoperating, which reflect the principles of the University's operating budget. Items of income shown in the operating section, which total $1.4 billion for the year ended June 30, 2012, include all unrestricted receipts as well as the endowment earnings made available for spending under the spending rule. Virtually all expenses, which total $1.3 billion, are associated with operating activity. For the year ended June 30, 2012, the University produced a surplus

Unrestricted net assets, which total $6.7 billion as of June 30, 2012, include gifts and other institutional resources that are not subject to explicit donor-imposed restrictions.

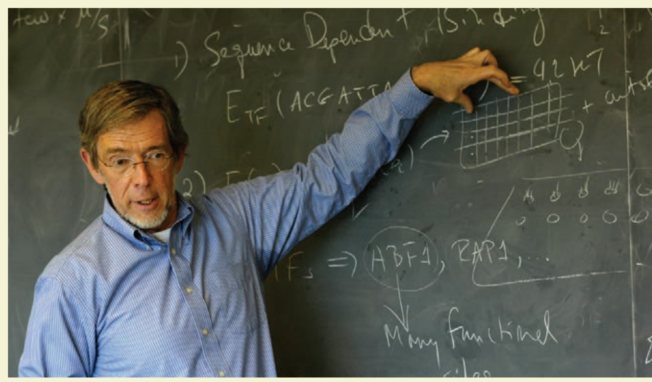
Financial Statement Overview

(Continued)

from operating activities in the amount of $81 million, calculated as total operating revenues less total operating expenses. Major items of income that are considered nonoperating income, which amounted to $12.8 million for the year ended June 30, 2012, include unrealized appreciation on investments and endowment income earned in the current year to be used in the succeeding year in accordance with operating budget policy. Unrestricted gift income, primarily from Annual Giving, is shown as operating income, whereas income from promises to give (pledges) is considered a nonoperating source of income.

The statement of activities concludes with a reconciliation of the change in each class of net assets for the year with the balance of net assets shown on the statement of financial position. The total change in net assets for the year ended June 30, 2012, for all classes of net assets was an increase of $94 million.

Statement of Cash Flows The statement of cash flows is intended to be the bridge from the increase or decrease in net assets for the year to the change in cash balances from one year-end to the next. Several items shown as expenses in the statement of activities, such as depreciation, do not require an outlay of cash. In contrast, the purchase of capital assets, which does require the expenditure of cash, is added directly to the statement of financial position and shows on the statement of activities only on a depreciation basis. Other items that affect cash balances but are not required to be included in the statement of activities include the



purchase and sale of investment securities, borrowing proceeds and the repayment of loan principal, and the net change in accounts receivable and payable.

The reconciling items on the statement of cash flows are grouped into three categories. Operating activities, which used $406 million in net cash for the year ended June 30, 2012, are those items of income and expense that occur during the normal course of providing services as an educational institution. Cash flows from operating activities also include investment earnings distributions. Investing activities, which provided $146 million in net cash, include the acquisition and disposal of capital assets such as buildings and equipment, and the purchase and sale of investments. Financing activities, which provided $254 million in net cash, are those transactions that provide permanent capital for the organization, such as endowment gifts. Also included are the disbursement of funds for new parent and employee loans; the collection of principal payments on such loans; the proceeds from long-term borrowing undertaken to finance capital additions, renewal, and replacement; and the repayment of principal on such indebtedness.

CONTRIBUTIONS

In accordance with FASB ASC 958-310, donors' unconditional promises to give are recorded as revenue and as amounts receivable by donees in the year received. Where collection is not expected within one year, the amount recorded is determined on a present-value basis. Conditional promises to give are recognized when they become unconditional, that is, when the conditions imposed by the donor have been substantially met.

Contributions must be classified as permanently restricted, temporarily restricted, or unrestricted, as determined solely by the donor. For the year ended June 30, 2012, contributions classified as permanently restricted totaled $90 million, those classified as temporarily restricted totaled $165 million, and those classified as unrestricted totaled $79 million. The classification of contributions is essential for the proper presentation of revenue in the statement of activities and of net assets in the statement of financial position, previously discussed.

ENDOWMENT MANAGEMENT

A significant portion of the operating budget is financed from endowment earnings. Consequently, the University's investment portfolio is managed for a total return that is accounted for under a consistently applied formula.

Most invested funds participate in a unitized pool (the Primary Pool), which is operated on a market-value basis. Long-term growth of principal and increase of future earnings are the University's objectives in the investment of these funds. Funds participating in the Primary Pool are assigned units on a market-value basis. Funds withdrawn from the Primary Pool receive appreciation or depreciation based on the change in unit market value. After deducting investment management fees, the earnings are allocated on the basis of units owned by participating funds.

The University follows an endowment spending rule that provides for an annual increase in the amount of Primary Pool earnings allocated for spending, provided that the resulting spending rate, expressed as a percentage of the market value, remains within a policy band of between 4.0 percent and 5.75 percent. For the Primary Pool's year ended June 30, 2012, the interest and dividends per unit (net of service charges) were $71.83. The unit earnings allocated for spending were $369.53 in fiscal year 2012 and $351.93 in fiscal year 2011. The market value of a unit was $8,299.09 at June 30, 2012, and $8,416.01 at June 30, 2011.

A Secondary Pool is maintained for funds expected to be disbursed within five years. Preservation of principal is the

Operating activities, which used $406 million in net cash for the year ended June 30, 2012, are those items of income and expense that occur during the normal course of providing services as an educational institution.

The University is committed to utilizing its financial resources in a thoughtful, prudent, and consistent manner in support of its current institutional and research programs, while preserving their value for future generations.

University's primary objective in the investment of these funds. Annual distributions are made at prevailing money market rates. Distributions to the participating funds for the Secondary Pool's year ended June 30, 2012, equaled 0.04 percent of the average market value.

The Balanced Fund and the Income Fund have been established for funds subject to donors' reservation of life income. The fiscal year-end for each pool is December 31. These pools are operated on a market-value basis in a manner similar to the way the Primary Pool is operated. Earnings are distributed to the beneficiaries every quarter. For the year ended December 31, 2011, the earnings distribution from the Balanced Fund was $98.07 per unit, and the average market value of a unit was $2,583.09; the earnings distribution from the Income Fund was $6.97 per unit, and the average market value of a unit was $150.00.

The University also maintains a group of separately invested funds. Included therein are funds established from gifts of investments restricted as to sale by donors, funds held in trust by others, and the University's investments in strategic real estate.

CONCLUSION

In summary, Princeton hopes that the readers of these financial statements find the presentations and explanations helpful in interpreting the financial state of the University. Princeton is blessed with significant financial resources, which it is charged with protecting and preserving over very long time horizons. This long-term view allows Princeton to weather any near-term financial challenge, such as the one experienced only a few years ago. The University is committed to utilizing its financial resources in a thoughtful, prudent, and consistent manner in support of its current institutional and research programs, while preserving their value for future generations.

Kenneth Molinaro
Controller

Report on Investments

Princeton University Investment Company

As of June 30, 2012, Princeton's Endowment stood at $17.0 billion, approximately $100 million less than the year before.[1] The decline in the value of the Endowment reflects that spending outflows, used in support of the University's operations, exceeded investment gains, gifts, and other inflows during the year.

The vast majority of the Endowment, $16.5 billion, is actively managed by the Princeton University Investment Company ("Princo").[2] While Princo maintains its own Board of Directors (the "Directors"), it is a University office operating under the final authority of the University's Board of Trustees (the "Trustees"). As detailed below, this portion of the Endowment generated a 3.1% investment return during fiscal 2012.

The purpose of the Endowment is to support the University's current and future operating needs, while preserving real value for future generations. This mission requires an expected long-term return that exceeds both the annual rate of spending and University inflation. To pursue this goal, Princo maintains an equity-biased portfolio and seeks to partner with best-in-class investment management firms across diverse asset categories.

Spending

Each year the Trustees decide upon an amount to be spent from the Endowment for the following fiscal year.[3] In their deliberations, the Trustees use a spending framework that is designed to enable sizable amounts to be spent in a reasonably stable fashion, while allowing for reinvestment sufficient to preserve purchasing power in perpetuity. The framework targets annual spending rates of between 4.00 percent and 5.75 percent.

In fiscal 2012, the Endowment spending distribution, in aggregate, equaled $720 million.[4] Spending per Endowment unit equated to 4.4 percent of market value at the start of fiscal 2012.

Asset Allocation

Asset allocation involves deciding what share of the portfolio should be placed in the various broad asset categories. The decisions attempt to balance the relative merits of equities versus fixed income, domestic versus foreign investments, and publicly-traded versus non-marketable assets.

Princeton's long-term asset allocation decisions are embodied in a Policy Portfolio that describes the asset categories in which Princeton will invest, a set of target weights that indicate how the portfolio will be positioned in "normal" market conditions, and a range of weightings within which exposures can be adjusted in response to mid-term opportunities arising from significant market disequilibria. Figure 1 below depicts the Policy Portfolio targets.

Readily manifest is Princo's bias towards equities or equity-like assets—94 percent of the portfolio is allocated toward these investments. Also striking is the relatively small portion, 6.5 percent, of the portfolio dedicated directly to Domestic Equities. Large portions of the portfolio are allocated to other high expected-return categories. Independent Return, Private Equity, and Real Assets bear further description. Independent Return is broadly defined as consisting of investment vehicles that seek high absolute returns that are typically

1 Excluded from Princeton's traditional definition of "Endowment" are working capital, planned giving investments, bond proceeds awaiting drawdown, strategic real estate investments, and certain student loans.

2 The pool actively managed by Princo excludes University mortgages, loans, and other assets held primarily for strategic University purposes. "Endowment net assets" as reported in the notes to the Consolidated Financial Statements in the amount of $16.4 billion as of June 30, 2012 further exclude agency funds in custody for others.

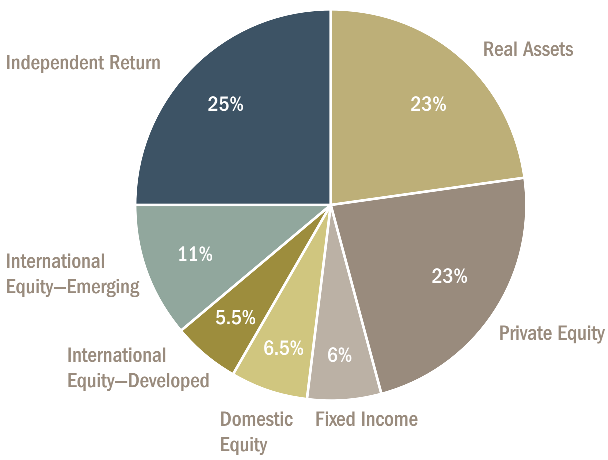
3 Excluded from these decisions are funds devoted to certain strategic purposes, such as subsidizing faculty and staff housing.

4 Investment earnings distributed in fiscal year 2012 in the amount of $724 million in the Statement of Activities is comprised of Endowment spending of $720 million, plus earnings from funds held in trust by others, working capital, planned giving investments, and other non-endowment investments.

Figure 1

PRINCETON UNIVERSITY POLICY PORTFOLIO

June 30, 2012



independent of broad market trends. Private Equity and Real Assets include investments in private companies, venture capital opportunities, real estate, and natural resources. These areas can offer attractive opportunities for skilled, patient investors.

The Policy Portfolio is diversified among asset categories for a number of reasons. Most importantly, PRINCO seeks return premia, in both risk-adjusted and absolute terms. In each equity asset category, Princeton has competitive advantages that create superior return potential. A broader opportunity set means that the portfolio may be capable of producing high returns more often and in a greater variety of environments. The multi-asset class approach also offers diversification benefits that help to control risk in most environments.

PRINCO's Directors, working closely with PRINCO Staff, review the Policy Portfolio annually. The fiscal 2012 review resulted in no changes to the Policy Portfolio. Table 1 gives a historical perspective, showing how the Policy Portfolio has evolved over two decades. Clearly evident is the long-standing practice of aggressive positioning. While non-traditional investments have grown as a share of the portfolio, this growth represents deliberate-paced, incremental expansion reflecting extensive consideration over multiple years.

Diversification into international investments is an important part of our multi-asset class approach. PRINCO believes such investments have the potential to increase long-term expected returns while helping to manage portfolio risk. Relative to the U.S., international markets tend to be less efficient, providing meaningful opportunities for adding value through active management.

An important part of PRINCO's approach to international investments is an emphasis on "foreign local", based managers outside of the U.S. Over time we have gained more exposure to such managers in both marketable and non-marketable categories. Indeed, we have formally articulated efforts in this regard as our "Grand Unifying Theme". This theme, while very important, is not fully visible in the Policy Portfolio as it cuts across several asset categories. On June 30, 2012, about 29% of the Endowment (including uncalled commitments) was controlled by managers based outside of the U.S.

Table 2 compares PRINCO's long-term Policy Portfolio asset allocation targets with the actual weights as of June 30, 2012. Within relatively small and

Table 1

PRINCETON UNIVERSITY ENDOWMENT POLICY PORTFOLIO TARGETS

Every Five Years Since 1993

Asset Class	1993*	1998	2003	2008	2013
Domestic Equity	45.0%	20.0%	18.0%	11.0%	6.5%
International Equity:					
Developed Markets	10.0%	7.5%	7.5%	7.5%	5.5%
Emerging Markets	0%	7.5%	7.5%	8.5%	11.0%
Independent Return	0%	25.0%	25.0%	25.0%	25.0%
Private Equity	12.0%	15.0%	15.0%	22.0%	23.0%
Real Assets	8.0%	10.0%	12.0%	20.0%	23.0%
Total Equity	75.0%	85.0%	85.0%	94.0%	94.0%
Fixed Income	20.0%	15.0%	15.0%	6.0%	6.0%
Cash and Other Assets	5.0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%

**1993 policy targets are pro-forma based on current asset class definitions*

pre-determined ranges, PRINCO's Staff and Directors will intentionally over- or under-weight more or less compelling asset categories. These deliberate allocation overlays occur most frequently in the marketable asset categories. Within Private Equity and Real Assets, deviations from Policy Portfolio targets can occur without deliberate intent, due to funding and market dynamics. When the Policy Portfolio targets for Private Equity and Real Assets were established, and when they are reviewed, it is with the understanding that allocation deviations in these categories are neither easily, nor cheaply, controlled with great precision, and therefore will often need to be offset by allocation adjustments in other categories.

That said, the overweight in Private Equity is striking, but unintentional. With hindsight we recognize that our commitments to Private Equity funds during fiscal years 2006 thru 2008

were too high. Since that time, we have reduced our commitment pace to a sustainable steady-state rate. We expect to glide gradually over several years to target allocation rather than "over-steering" more quickly, which would impair the portfolio's diversification across investment vintages. It will, however, take time for this reduced commitment pace to translate into lower exposure.

The under-weight in Fixed Income should be viewed in conjunction with the Cash position, as we consider Cash a proxy for Fixed Income exposure.

Report on Investments

Princeton University Investment Company
(Continued)

Table 2
ASSET ALLOCATION
June 30, 2012

Allocation	Policy Target	Actual
Domestic Equity	6.5 %	5.9 %
International Equity		
Developed Markets	5.5 %	3.3 %
Emerging Markets	11.0 %	6.2 %
Independent Return	25.0 %	19.4 %
Private Equity	23.0 %	36.4 %
Real Assets	23.0 %	22.6 %
Fixed Income	6.0 %	0.3 %
Cash	0.0 %	5.9 %

Table 3
PRINCETON ASSET CLASS RETURNS
Fiscal Year 2012

Asset Class	Return
Domestic Equity	15.8 %
International Equity	
Developed Markets	-9.7 %
Emerging Markets	0.2 %
Independent Return	4.3 %
Private Equity	2.7 %
Real Assets	1.4 %
Fixed Income and Cash	2.5 %
Indices	
S&P 500	5.4 %
MSCI All Country World Index	-6.5 %

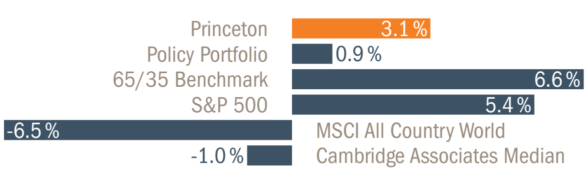
We are currently holding Cash rather than Fixed Income due to a combination of exceptionally low yields that U.S. government bonds offer, increased price risk, and decreased "insurance" functionality.[5]

Performance

For the fiscal year ending June 30, 2012 (see figure 2), the Endowment produced a positive 3.1 percent return on invested assets, significantly outperforming our primary benchmark, the Policy Portfolio Index (or "PPI"), by 2.2 percent, and the median college and university endowment by 4.1 percent.[6] However, both the Endowment and PPI lagged our secondary benchmark—a 65/35 blend of the S&P 500 and the Barclays Government/Credit Bond Index—which produced a 6.6 percent return.[7] The 65/35's dominance illustrates that diversification, particularly if it involved foreign currencies, created an immense drag this year. Indeed, the MSCI All Country World Index ("ACWI"), a broad-based indicator of global public equity markets, declined 6.5% during the year. Moreover, the 65/35 was turbo-charged this year by its substantial exposure to U.S. bonds, an area that had great returns as Government yields reached historical lows.

Princeton's asset class returns for the year were generally lackluster in absolute terms (see table 3). However, with the exception of International Developed Equity, each of the Endowment's asset categories delivered positive returns, a pleasing result given challenging market conditions. Domestic Equity was the star performer gaining 15.8%, an outstanding result in the context of low returns from

Figure 2
ENDOWMENT PERFORMANCE VS. BENCHMARKS
Fiscal Year 2012



Return to Policy Portfolio represents the weighted average of individual asset class benchmark returns.

Figure 3

ENDOWMENT PERFORMANCE VS. BENCHMARKS

10 Years Ending June 30, 2012

Return to Policy Portfolio represents the weighted average of individual asset class benchmark returns.

the U.S. stock market. Also remarkable was the performance of the Emerging Markets asset category, which eked out a small gain in a year when emerging market equity indices suffered sharp declines. As another notable highlight, within Real Assets, real estate investments continued to recover, registering solid gains. Returns from Fixed Income and Cash would have been higher had we not responded early in the year to record high bond prices by selling bonds and moving into cash.

Generally speaking, the evaluation of our investment program should focus on the long-term, and our long-term results are strong in both absolute and relative terms (see figure 3). In a decade of challenging market conditions and lower than average inflation, Princeton's portfolio earned an annualized return of 9.9 percent. (For context, the Higher Education Price Index—a measure of University inflation—averaged 3.3% over this period.) This compares favorably against the 9.3 percent return for the Policy Portfolio Index and the 6.8 percent for the median college and university endowment. The managed investment portfolio also did very well relative to the passive 65/35 benchmark, which produced an annualized ten-year return of 5.9 percent. Over the past ten years, Princeton's excess performance relative to the Policy Portfolio, median college and university, and 65/35 benchmark has added approximately $1 billion, $5 billion, and $6 billion, respectively, to the Endowment.

Additional long-term perspective is available by looking at performance over rolling ten-year periods. Table 4 compares PRINCO's investment performance over rolling-ten-year periods versus that of the 65/35 benchmark. Over rolling decade-long periods the Endowment has

Table 4

ANNUALIZED 10 YEARS RETURNS

Fiscal Year	PRINCO	65/35	Difference
1994-2003	14.3 %	9.5%	4.8%
1995-2004	15.5 %	10.7%	4.8%
1996-2005	15.6 %	9.3%	6.3%
1997-2006	15.6 %	8.0%	7.6%
1998-2007	16.2 %	7.1%	9.1%
1999-2008	14.9 %	4.2%	10.7%
2000-2009	9.7 %	1.0%	8.7%
2001-2010	7.9 %	1.6%	6.3%
2002-2011	9.8 %	4.2%	5.6%
2003-2012	9.9 %	5.9%	4.0%

5 A key reason for holding high quality fixed income is that it provides "insurance" against deflation and extended equity market declines. In particular, we expect yields to decline and bond prices to rise in many crisis scenarios. However, given current low yields, there is less room for further declines, reducing the insurance functionality.

6 Policy Portfolio returns represent a weighted average of individual benchmark returns. The median college and university endowment returns represent data compiled by Cambridge Associates for over 150 college and university endowments.

7 The 65% S&P 500/35% Barclays Government/Credit Index portfolio represents what an investor would earn from a 65/35 investment in these equity and fixed income market indices, rebalanced annually. Since its inception in 1987, PRINCO has used this benchmark to represent the returns that might have been earned by institutional investors pursuing more traditional investment approaches.

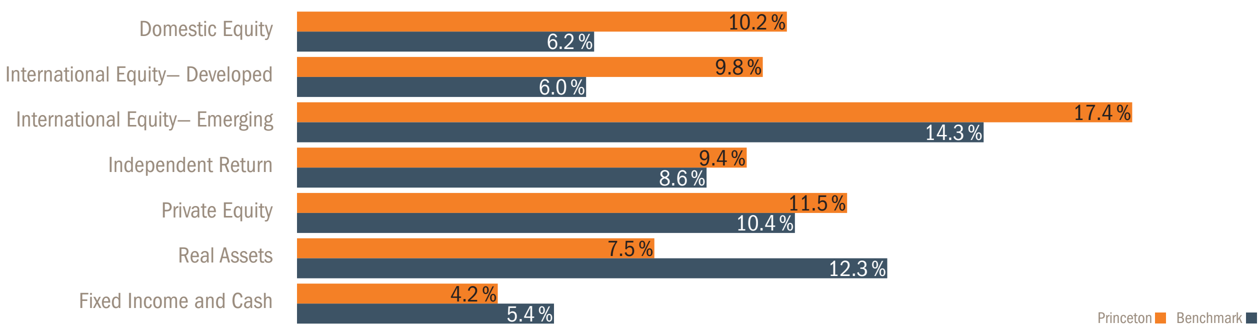
Report on Investments

Princeton University Investment Company
(Continued)

Figure 4

PRINCETON ASSET CLASS RETURNS VS. BENCHMARKS

Ten Years Ending June 30, 2012



Benchmarks used:
Domestic Equity: Wilshire 5000 Index;
International Equity–Developed: MSCI World ex-US Index prior to 6/30/10; MSCI World ex-US IMI thereafter;
International Equity–Emerging: MSCI Emerging Markets Index prior to 6/30/10; MSCI Emerging Markets IMI thereafter;
Independent Return: (40% Wilshire 5000 + 60% 91-day T-Bill) + 550 bps annualized prior to 6/30/10;
40% MSCI All Country World Index + 60%*(91-day T-Bill + 650 bps annualized) thereafter;
Fixed Income and Cash: Barclays Government Bond Index;
Private Equity: Customized Cambridge Associates benchmark;
Real Assets: Levered NCREIF Property Index until 6/30/03; Blend of levered NCREIF Property Index and a timber component through 6/30/04. Energy component added thereafter. Levered NCREIF Property Index changed to Cambridge Associates Real Estate benchmark at 6/30/10.

consistently outperformed the more conventional, more liquid 65/35 benchmark.

Over the past ten years, Princeton outperformed within asset categories by an average annualized margin of 1.0 percent, with five of seven asset categories outperforming their respective benchmarks (see figure 4). Emerging Markets produced the highest absolute return of the Endowment's asset categories, returning 17.4 percent on an annualized basis, and handily outperforming its benchmark. The strong relative performance would not have been possible without the shift in our Emerging Markets manager roster over the last eight years, from employing generalist managers to investing primarily with foreign-based, single-country and regional specialists. Private Equity was the second best performing asset class, generating strong absolute and relative returns. The Real Assets portfolio produced fairly solid absolute returns, modestly outpacing our inflation-adjusted return expectations for the asset class. Nevertheless, the portfolio underperformed its benchmark meaningfully. Our trailing of the benchmark is partially explained by some regrettable investment decisions, as well as some good decisions that generated bad results. However, more significantly, the comparison to the benchmark is made less meaningful by the fact that Real Assets is an inherently difficult asset class to benchmark. Indeed, we have often had to select the "least bad" benchmark. As a result, a substantial amount of the

long-term underperformance relates to mismatches between the components of the benchmark and our program. The largest single factor in the under-performance of Fixed Income and Cash was the recent decision to sell bonds at historically high prices and hold cash (mentioned above). Additional drag arose in previous years from the episodic presence of significant cash balances, held transitionally during periods of portfolio wide rebalancing.

In closing, we share the following two haiku-like verses, originally penned as part of this year's annual PRINCO policy review, to summarize our approach to fulfilling our charge of positioning the Endowment to optimize prospects in the face of certain and uncertain risks.

Look beyond Long-Term;
Bet only where advantaged;
Whole is more than sum.

Preserve real value;
Optimizing discomfort;
Forever is far.

Andrew Golden
President, Princeton University
Investment Company

pwc

Report of Independent Auditors

To the Trustees of Princeton University:

In our opinion, the accompanying statement of consolidated financial position and the related consolidated statement of activities and cash flows present fairly, in all material respects, the financial position of Princeton University (the "University") at June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The consolidated financial statements of the University as of June 30, 2011 and for the year then ended were audited by other auditors whose report dated December 7, 2011 expressed an unqualified opinion on those statements.

PricewaterhouseCoopers LLP

November 30, 2012

PricewaterhouseCoopers LLP, PricewaterhouseCoopers Center, 300 Madison Avenue, New York, NY 10017
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Consolidated Statements of Financial Position

June 30, 2012 and 2011

(dollars in thousands)	**2012**	**2011**
Assets		
Cash	$ 5,277	$ 11,283
Accounts receivable	80,032	87,599
Receivables associated with investments	683	26,828
Educational and mortgage loans receivable	384,372	399,795
Contributions receivable	344,120	252,107
Inventories and deferred charges	21,554	20,903
Managed investments at market value	16,679,115	16,789,681
Funds held in trust by others	112,109	119,880
Other investments	612,778	412,192
Property, net of accumulated depreciation	2,991,739	2,789,075
Total assets	**$ 21,231,779**	**$ 20,909,343**
Liabilities		
Accounts payable	$ 100,859	$ 80,513
Liabilities associated with investments	160,891	184,382
Deposits, advance receipts, and accrued liabilities	123,457	127,822
Deposits held in custody for others	176,656	167,833
Deferred revenues	40,554	40,835
Liability under planned giving agreements	80,793	83,164
Federal loan programs	6,533	6,469
Indebtedness to third parties	2,883,424	2,675,807
Accrued postretirement benefits	311,951	289,956
Total liabilities	**$ 3,885,118**	**$ 3,656,781**
Net assets		
Unrestricted	$ 6,670,791	$ 6,673,136
Temporarily restricted	8,953,081	8,912,183
Permanently restricted	1,722,789	1,667,243
Total net assets	**$ 17,346,661**	**$ 17,252,562**
Total liabilities and net assets	**$ 21,231,779**	**$ 20,909,343**

See notes to consolidated financial statements.

Consolidated Statements of Activities

Year ended June 30, 2012

(dollars in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
Operating revenues				
Tuition and fees	$ 282,763	-	-	$ 282,763
Less scholarships and fellowships	(184,810)	-	-	(184,810)
Net tuition and fees	97,953	-	-	97,953
Government grants and contracts	248,968	-	-	248,968
Private gifts, grants, and contracts	78,970	-	-	78,970
Auxiliary sales and services	98,003	-	-	98,003
Other sources	150,957	-	-	150,957
Investment earnings distributed	284,455	$ 439,468	-	723,923
Operating revenues	959,306	439,468	-	1,398,774
Net assets released from restrictions	454,698	(454,698)	-	-
Total operating revenues	**1,414,004**	**(15,230)**	**-**	**1,398,774**
Operating expenses				
Educational and general:				
Academic departments and programs	592,772	-	-	592,772
Academic support	79,168	-	-	79,168
Student services	101,862	-	-	101,862
Library	73,878	-	-	73,878
General administration and institutional support	135,828	-	-	135,828
Other student aid	35,411	-	-	35,411
Plasma Physics Laboratory	82,170	-	-	82,170
Total educational and general	1,101,089	-	-	1,101,089
Auxiliary activities	104,339	-	-	104,339
Interest on indebtedness	112,026	-	-	112,026
Total operating expenses	**1,317,454**	**-**	**-**	**1,317,454**
Results of operations	96,550	(15,230)	-	81,320
Nonoperating activities				
Adjustments to planned giving agreements	-	7,695	$ 1,755	9,450
Decrease in value of assets held in trust by others	-	-	(7,771)	(7,771)
Private gifts, noncurrent	-	165,054	89,778	254,832
Net realized and unrealized appreciation on investments	185,560	277,738	16,893	480,191
Distribution of investment earnings	(284,455)	(439,468)	-	(723,923)
Reclassifications and transfers	-	45,109	(45,109)	-
Increase from nonoperating activities	(98,895)	56,128	55,546	12,779
Increase in net assets	(2,345)	40,898	55,546	94,099
Net assets at the beginning of the year	**6,673,136**	**8,912,183**	**1,667,243**	**17,252,562**
Net assets at the end of the year	**$ 6,670,791**	**$ 8,953,081**	**$ 1,722,789**	**$ 17,346,661**

See notes to consolidated financial statements.

(dollars in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Operating revenues				
Tuition and fees	$ 276,290	-	-	$ 276,290
Less scholarships and fellowships	(177,847)	-	-	(177,847)
Net tuition and fees	98,443	-	-	98,443
Government grants and contracts	252,556	-	-	252,556
Private gifts, grants, and contracts	72,416	-	-	72,416
Auxiliary sales and services	97,235	-	-	97,235
Other sources	136,620	-	-	136,620
Investment earnings distributed	297,226	$ 401,820	-	699,046
Operating revenues	954,496	401,820	-	1,356,316
Net assets released from restrictions	420,321	(420,321)	-	-
Total operating revenues	**1,374,817**	**(18,501)**	**-**	**1,356,316**
Operating expenses				
Educational and general:				
Academic departments and programs	568,901	-	-	568,901
Academic support	72,398	-	-	72,398
Student services	96,026	-	-	96,026
Library	67,559	-	-	67,559
General administration and institutional support	123,443	-	-	123,443
Other student aid	34,296	-	-	34,296
Plasma Physics Laboratory	83,392	-	-	83,392
Total educational and general	1,046,015	-	-	1,046,015
Auxiliary activities	116,177	-	-	116,177
Interest on indebtedness	124,321	-	-	124,321
Total operating expenses	**1,286,513**	**-**	**-**	**1,286,513**
Results of operations	88,304	(18,501)	-	69,803
Nonoperating activities				
Adjustments to planned giving agreements	-	8,145	$ 1,186	9,331
Increase in value of assets held in trust by others	-	-	18,188	18,188
Private gifts, noncurrent	-	67,114	90,341	157,455
Net realized and unrealized appreciation on investments	887,525	2,117,093	21,706	3,026,324
Distribution of investment earnings	(297,226)	(401,820)	-	(699,046)
Increase from nonoperating activities	590,299	1,790,532	131,421	2,512,252
Increase in net assets	678,603	1,772,031	131,421	2,582,055
Net assets at the beginning of the year	**5,994,533**	**7,140,152**	**1,535,822**	**14,670,507**
Net assets at the end of the year	**$ 6,673,136**	**$ 8,912,183**	**$ 1,667,243**	**$ 17,252,562**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

(dollars in thousands)	2012	2011
Cash flows from operating activities		
Change in net assets	$ 94,099	$ 2,582,055
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation expense	104,164	108,033
Amortization of bond issuance costs and premiums	(4,558)	(3,969)
Property gifts-in-kind	(1,130)	(2,589)
Adjustments to planned giving agreements	(9,450)	(9,331)
Net realized and unrealized appreciation on investments	(480,191)	(3,026,324)
(Gain) loss on disposal of fixed assets	(4,628)	457
Decrease (increase) in value of assets held in trust by others	7,771	(18,188)
Contributions received for long-term investment	(88,648)	(157,455)
Changes in operating assets and liabilities:		
Receivables	(69,023)	(8,559)
Inventory and deferred charges	(651)	(4,902)
Accounts payable	20,346	(926)
Deposits, advanced receipts, and accrued liabilities	(4,365)	(7,415)
Deposits held in custody for others	8,823	17,298
Deferred revenue	(281)	(754)
Accrued postretirement benefits	21,995	2,221
Net cash used by operating activities	**(405,727)**	**(530,348)**
Cash flows from investing activities		
Purchases of property, plant, and equipment	(305,504)	(237,754)
Proceeds from disposal of property, plant, and equipment	3,304	7,480
Purchases of investments	(4,951,925)	(3,546,875)
Proceeds from maturities/sales of investments	5,400,304	4,202,593
Net cash provided by investing activities	**146,179**	**425,444**
Cash flows from financing activities		
Issuance of indebtedness to third parties, net of drawdowns	216,056	14,685
Payment of debt principal	(59,435)	(53,409)
Contributions received for long-term investment	89,778	128,313
Transactions on planned giving agreements	7,079	22,468
Net additions under federal loan programs	64	66
Net cash provided by financing activities	**253,542**	**112,123**
Net (decrease) increase in cash	**(6,006)**	**7,219**
Cash at beginning of year	**11,283**	**4,064**
Cash at end of year	**$ 5,277**	**$ 11,283**
Supplemental disclosures		
Interest paid	$ 115,829	$ 127,578

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended June 30, 2012 and 2011

1. NATURE OF OPERATIONS

Princeton University (the "University") is a privately endowed, nonsectarian institution of higher learning. When originally chartered in 1746 as the College of New Jersey, it became the fourth college in British North America. It was renamed Princeton University in 1896. First located in Elizabeth, and briefly in Newark, the school moved to Princeton in 1756.

The student body numbers approximately 5,170 undergraduates and 2,600 graduate students in more than 60 departments and programs. The University offers instruction in the liberal arts and sciences and in professional programs of the School of Architecture, the School of Engineering and Applied Science, and the Woodrow Wilson School of Public and International Affairs. The faculty numbers approximately 1,140, including visitors and part-time appointments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Princeton University (now legally known as "The Trustees of Princeton University") are prepared on the accrual basis and include the accounts of its wholly owned subsidiaries, foundation, and investments controlled by the University. Financial information conforms to the statements of accounting principles of the Financial Accounting Standards Board (FASB) and to the American Institute of Certified Public Accountants *Audit and Accounting Guide for Not-for-Profit Entities*. Relevant pronouncements include FASB Accounting Standards Codification (ASC) 958-310, *Not-for-Profit Entities—Receivables*, and ASC 958-205, *Not-for-Profit Entities—Presentation of Financial Statements*.

Unconditional promises to give are recognized as revenues in the year made, not in the year in which the cash is received. The amounts are discounted based on timing of expected collections. Amounts received from donors to planned giving programs are shown in part as a liability for the present value of annuity payments to the donor; the balance is shown as a gift of either temporarily or permanently restricted net assets.

External financial statements of not-for-profit organizations require the preparation of a statement of financial position (balance sheet), a statement of activities, and a statement of cash flows. The classification of the organization's net assets and its revenues and expenses into three categories according to the existence or absence of donor-imposed restrictions—permanently restricted, temporarily restricted, or unrestricted—is also required. Changes, including reclassification and transfers, in each category are reflected in the statement of activities, certain of which are further categorized as nonoperating. Such nonoperating activities primarily reflect transactions of a long-term investment or capital nature, including contributions receivable in future periods, contributions subject to donor-imposed restrictions, and gains and losses on investments in excess of the University's spending rule. Other significant accounting policies are described elsewhere in these notes.

The preparation of the University's financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated statements of financial position, and the reported amounts of revenue and expense included in the consolidated statements of activities. Actual results could differ from such estimates.

Certain prior-year balances have been reclassified to conform to current-year presentation.

Notes to Consolidated Financial Statements

(Continued)

3. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosure about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. Fair value should be based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques and the inputs to valuations. Fair value measurements assume that the transaction occurs in the principal market for the asset or liability (the market with the most volume and activity for the asset or liability from the perspective of the reporting entity), or in the absence of a principal market, the most advantageous market for the asset or liability (the market in which the reporting entity would be able to maximize the amount received or minimize the amount paid). The University applies fair value measurements to certain assets and liabilities, including the University's managed investments, other investments, and funds held in trust by others, in accordance with the requirements described above.

The University maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Fair value is based on actively quoted market prices, if available. In the absence of actively quoted market prices, price information from external sources, including broker quotes and industry publications, is used. If pricing information from external sources is not available, or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value using discounted cash flow and other income valuation approaches.

The University utilizes the following fair value hierarchy, which prioritizes, into three broad levels, the inputs to valuation techniques used to measure fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities that the University has the ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of a broadly traded range of equity and debt securities.

Level 2: Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 consist primarily of investments in certain entities that calculate net asset value per share (or its equivalent) and can be redeemed in the near term.

Level 3: Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 consist primarily of limited partnership interests and other similar investment vehicles.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. Fair value measurements are categorized as Level 3 when a significant amount of price or other inputs that are considered to be unobservable are used in their valuations. Where the University has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date, such investments have been categorized under Level 2 fair value measurements. Certain of these investments may be subject to modest holdback provisions to cover audit and other potential expenses or adjustments in the event of a complete withdrawal.

The following tables present the University's assets that are measured at fair value for each hierarchy level, at June 30, 2012 and 2011. The managed investment categories are presented on a "manager-mandate" basis, that is, all of the assets and market value of the underlying funds and accounts are included in the class which is the primary focus of the fund or account. (Many funds and accounts are provided with flexibility to invest across more than one asset class.)

		Fair Value Measurements at Reporting Date Using		
(dollars in millions) **2012**	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at fair value				
Managed investments (gross):				
Domestic equity	$ 1,209.5	$ 20.6	$ 150.1	$ 1,038.8
International equity	1,501.4	228.9	281.1	991.4
Independent return	3,972.5	-	537.6	3,434.9
Private equity	5,768.1	-	-	5,768.1
Real assets	3,337.8	40.4	-	3,297.4
Fixed income	12.1	-	-	12.1
Cash and other	877.7	876.9	-	0.8
Funds held in trust by others	112.1	-	-	112.1
Other investments	612.8	371.7	-	241.1
Total	$ 17,404.0	$ 1,538.5	$ 968.8	$ 14,896.7
2011				
Assets at fair value				
Managed investments (gross):				
Domestic equity	$ 1,186.5	$ 5.0	$ 187.0	$ 994.5
International equity	1,556.7	255.1	311.5	990.1
Independent return	3,839.1	-	459.0	3,380.1
Private equity	6,085.5	-	(32.6)	6,118.1
Real assets	3,192.8	56.0	-	3,136.8
Fixed income	494.6	494.6	-	-
Cash and other	434.5	398.8	34.9	0.8
Funds held in trust by others	119.9	-	-	119.9
Other investments	412.2	145.1	-	267.1
Securities pledged to creditors	8.6	8.6	-	-
Total	$ 17,330.4	$ 1,363.2	$ 959.8	$ 15,007.4

The University adopted Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*, which requires additional disclosures for significant transfers in and out of Fair Value Levels 1 and 2. The guidance clarifies existing disclosures to include fair value measurement disclosures for each class of assets and liabilities; it also requires additional disclosures about inputs and valuation techniques utilized to measure fair value for Levels 2 and 3. Effective for the fiscal year ended June 30, 2012, the University adopted additional disclosures related to ASU 2010-06 and the fair value measurements of investments as they relate to gross reporting of changes in Level 3 investments. This standard requires the University to separate disclosures about purchases, sales, issuances, and settlement on a gross basis relating to Level 3 investment.

Notes to Consolidated Financial Statements

(Continued)

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The guidance requires enhanced disclosures around Level 2 and Level 3 investments in the fair value hierarchy, including the disclosure of significant unobservable inputs used in these investment valuations. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2011. The University is currently evaluating the impact that the adoption of the ASU will have on the qualitative and quantitative disclosures about fair value measurements to be used for the year ended June 30, 2013.

Assets and liabilities of a majority-owned investment fund have been consolidated for reporting purposes at June 30, 2012, and reclassified as of June 30, 2011, to conform to the current-year presentation. Managed investments, specifically the independent return asset class, includes consolidated investment fund assets of $782,143 and $756,090 at June 30, 2012 and 2011, respectively, and liabilities associated with investments includes consolidated investment fund liabilities of $160,640 and $156,334 at June 30, 2012 and 2011, respectively.

The following tables present the net change in the assets measured at fair value on a recurring basis and included in the Level 3 fair value category for the years ended June 30, 2012 and 2011:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
(dollars in millions)	June 30, 2011	Total gains or losses included in changes in net assets	Purchases	Sales and settlements	Transfers into Level 3	Transfers out of Level 3	June 30, 2012
Assets at fair value							
Managed investments (gross):							
Domestic equity	$ 994.5	$ 150.9	$ 8.1	$ (114.7)	$ -	$ -	$ 1,038.8
International equity	990.1	(4.0)	90.6	(85.3)	-	-	991.4
Independent return	3,380.1	125.7	123.6	(154.2)	41.6	(81.9)	3,434.9
Private equity	6,118.1	125.4	1,066.1	(1,541.5)	-	-	5,768.1
Real assets	3,136.8	62.4	553.6	(455.4)	-	-	3,297.4
Fixed income	-	0.6	47.1	(35.6)	-	-	12.1
Cash and other	0.8	-	-	-	-	-	0.8
Other investments	267.1	(25.4)	16.2	(16.8)	-	-	241.1
Funds held in trust by others	119.9	(7.8)	-	-	-	-	112.1
Total Level 3 investments	$ 15,007.4	$ 427.8	$ 1,905.3	$ (2,403.5)	$ 41.6	$ (81.9)	$ 14,896.7

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
(dollars in millions)	June 30, 2010	Total gains or losses included in changes in net assets	Purchases, sales and settlements	Transfers into and/or (out of) Level 3	June 30, 2011
Assets at fair value					
Managed investments (gross):					
Domestic equity	$ 706.9	$ 264.4	$ 21.6	$ 1.6	$ 994.5
International equity	718.2	251.1	20.8	-	990.1
Independent return	3,209.8	455.4	(319.5)	34.4	3,380.1
Private equity	4,805.6	1,448.7	(136.2)	-	6,118.1
Real assets	2,550.4	370.4	216.0	-	3,136.8
Cash and other	0.8	-	-	-	0.8
Other investments	233.2	37.2	(3.3)	-	267.1
Funds held in trust by others	101.7	18.2	-	-	119.9
Total Level 3 investments	$ 12,326.6	$ 2,845.4	$ (200.6)	$ 36.0	$ 15,007.4

The University assesses the valuation hierarchy for each asset or liability measured on an annual basis. From time to time, assets or liabilities will be transferred within hierarchy levels as a result of changes in valuation methodologies, liquidity, or redemption terms. In the year ended June 30, 2012, one investment transferred from Level 2 to Level 3 and one investment transferred from Level 3 to Level 2. In the year ended June 30, 2011, one investment transferred from Level 1 to Level 2, one investment transferred from Level 1 to Level 3, and one investment transferred from Level 2 to Level 3. These transfers were the result of an updated review of the current redemption terms of these assets. The University's policy is to recognize such transfers at the beginning of the reporting period.

Realized losses of $1,611.3 million and realized gains of $646.2 million related to Level 3 investments and unrealized gains of $2,039.0 million and $2,199.3 million related to Level 3 investments are included in net realized and unrealized appreciation on investments in the consolidated statements of activities for the years ended June 30, 2012 and 2011, respectively.

The following tables and disclosures set forth the significant terms of the agreements with investment managers by major category at June 30, 2012 and 2011. The information is presented on a "manager-mandate" basis.

(dollars in millions)	June 30 Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
2012				
Managed investments (gross)				
Domestic equity (a)	$ 1,209.5	$ 0.3	daily–annually	4–90 days
International equity–developed (b)	441.0	-	daily–annually	7–90 days
International equity–emerging (c)	1,060.4	107.4	daily–annually	7–90 days
Independent return (d)	3,972.5	203.7	monthly–annually	30–90 days
Fixed income (e)	12.1	-	daily	same day
Cash and other (e)	877.7	-	daily	same day
Marketable asset classes	$ 7,573.2	$ 311.4		
Private equity (f)	5,768.1	2,199.5		
Real assets (g)	3,337.8	1,008.4		
Nonmarketable asset classes	$ 9,105.9	$ 3,207.9		
Total gross investments	$ 16,679.1	$ 3,519.3		
2011				
Managed investments (gross)				
Domestic equity (a)	$ 1,186.5	$ 8.2	daily–annually	4–90 days
International equity–developed (b)	491.7	-	daily–annually	7–90 days
International equity–emerging (c)	1,065.0	-	daily–annually	7–90 days
Independent return (d)	3,839.1	110.6	monthly–annually	7–180 days
Fixed income (e)	494.6	-	daily	same day
Cash and other (e)	434.5	-	daily	same day
Marketable asset classes	$ 7,511.4	$ 118.8		
Private equity (f)	6,085.5	2,216.5		
Real assets (g)	3,192.8	1,259.7		
Nonmarketable asset classes	$ 9,278.3	$ 3,476.2		
Total gross investments	$ 16,789.7	$ 3,595.0		

(a) Domestic Equity: This class includes funds and accounts primarily invested in equities traded on domestic exchanges or in over-the-counter markets. The fair values of the investments in this class have been estimated using the net asset value per share of the investee funds, or, in the case of custodied accounts, the fair value of the securities held. Investments representing approximately 6 percent of the market value of this class are invested in nonredeemable assets.
(b) International Equity—Developed: This class includes funds invested in publicly traded equity and debt securities traded in countries with developed economies other than the United States. The fair values of the investments in this class have been estimated using the net asset value per share of the investee funds. Virtually none of the investments in this class are invested in nonredeemable assets.
(c) International Equity—Emerging: This class includes funds invested in publicly traded equity and debt securities traded in countries with emerging economies. The fair values of the investments in this class have been estimated using the net asset value per share of the investee funds. Investments representing approximately 16 percent of the market value of this class are invested in nonredeemable assets.
(d) Independent Return: This class includes funds invested in equity and debt securities and financial instruments such as options, swaps, futures, and other derivatives. Funds in this class may hold both long and short positions in any of these instruments and pursue a variety of investment strategies based upon the fund's investment mandate and the current opportunity set. Due to the diverse nature of the underlying investments, funds in this class are not easily categorized. However, in general terms, approximately 26 percent is invested in funds principally focused on long/short equities, 25 percent is invested in event-driven/arbitrage funds, and 49 percent is invested in funds that opportunistically engage in both strategies. Investments representing approximately 23 percent of the market value of this class are invested in nonredeemable assets.
(e) Fixed Income and Cash: On a combined basis, these asset classes include primarily U.S. government and U.S. government–guaranteed agency securities held in separate accounts at the custodial bank. Virtually all of the investments in these classes can be redeemed on a daily basis.
(f) Private Equity: This class includes funds that invest primarily in buyouts or venture capital. The fair values of the investments in this class have generally been estimated using partners' capital statements, which reflect the University's ownership interest in partners' capital. Generally, investments in this class are not redeemable. Distributions from investee funds in the private equity portfolio will be received as the underlying investments of the funds are liquidated.
(g) Real Assets: This class includes funds that invest primarily in real estate, energy, and timber. The fair values of the investments in this class have been estimated using partners' capital statements, which reflect the University's ownership interest in partners' capital. Generally, investments in this class are not redeemable. However, a small portion, $137.2 million at June 30, 2012, and $164.6 million at June 30, 2011, was invested in funds that allow for investor-initiated withdrawals. More broadly, distributions from investee funds will be received as the underlying investments of the funds are liquidated.

The University is obligated under certain limited partnership agreements to advance additional funding periodically up to specified levels. At June 30, 2012, the University had unfunded commitments of $3.5 billion. Such commitments are generally called over periods of up to 10 years and contain fixed expiration dates or other termination clauses.

Although the University sells interests in its investments from time to time on an opportunistic basis, as of June 30, 2012, there were no investments identified that were likely to be sold at amounts significantly different from net asset value per share or its equivalent (i.e., "partners' capital accounts").

Investments in the marketable asset classes are generally made in entities that allow the University to request withdrawals on a periodic basis. However, approximately $1.2 billion of the marketable asset classes are invested in "nonredeemable assets," which are not eligible for withdrawal by the University. Nonredeemable assets are either investments in funds without withdrawal rights or specific investments within a fund designated by the fund manager as ineligible for withdrawal. Due to the illiquid nature of nonredeemable assets, it is impossible for the University to predict when these assets will become available.

In addition to nonredeemable assets, the University may be limited in its ability to effect a withdrawal if a fund manager invokes a "gate" provision restricting redemptions from its fund. Gates are generally triggered if aggregate fund withdrawals exceed a specific threshold. No withdrawals were impacted by a gate in the year ended June 30, 2012.

4. MANAGED INVESTMENTS

All managed investments are reported at fair value. The fair value of marketable equity, debt, and certain derivative securities (which includes both domestic and foreign issues) is generally based upon a combination of published current market prices and exchange rates. The fair value of restricted securities and other investments for which published market prices are not available is based on estimated values using discounted cash flow analysis and other industry standard methodologies. Where applicable, independent appraisers and engineers assist in the valuation. The fair value of limited partnerships and similar investment vehicles is generally estimated by external investment managers, including general partners or valuation committees. These valuations necessarily involve assumptions and methods that are reviewed, evaluated, and adjusted, if necessary, by the University. Changes in assumptions could have a significant effect on the fair values of these investments. Actual results could differ from these estimates and could have a material impact on the financial statements. These investments are generally less liquid than other investments, and the values reported may differ from the values that would have been reported had a ready market for these securities existed. Securities transactions are reported on a trade-date basis.

A summary of investments by asset category at fair value, presented on a "look-through basis," at June 30, 2012 and 2011, is as follows:

(dollars in millions)	2012	2011
Managed investments:		
Domestic equity	$ 970.2	$ 897.3
International equity	1,566.2	1,712.4
Independent return	3,357.9	3,145.8
Private equity	6,019.2	6,346.8
Real assets	3,737.7	3,671.8
Fixed income	45.0	540.1
Cash and other	983.3	474.4
Net managed investments	**16,679.5**	**16,788.6**
(Receivables) payables associated with investments—net	(0.4)	1.1
Gross managed investments	**$ 16,679.1**	**$ 16,789.7**

Notes to Consolidated Financial Statements

(Continued)

The Princeton University Investment Company (PRINCO) manages investments for the University and a foundation that the University controls, the Stanley J. Seeger Hellenic Fund. The investment balances managed by PRINCO for these entities as of June 30, included in the University's consolidated financial statements, are as follows:

(dollars in millions)	2012	2011
Princeton University	$ 16,469.7	$ 16,589.4
Stanley J. Seeger Hellenic Fund	33.1	31.4
Deposits held in custody for others	176.7	167.8
Net managed investments	**$ 16,679.5**	**$ 16,788.6**

The composition of net investment return from managed and other investments for the years ended June 30, 2012 and 2011, was as follows:

(dollars in thousands)	2012	2011
Net realized and unrealized (losses) gains	$ (264,532)	$ 2,316,497
Interest, dividends, and other income	744,723	709,827
Total	**$ 480,191**	**$ 3,026,324**

Princeton University investments together with the Stanley J. Seeger Hellenic Fund and deposits held in custody for others are invested in a single unitized pool. The market value of each unit was $8,299.09 and $8,416.01 at June 30, 2012 and 2011, respectively. The average value of a unit during the years ending June 30, 2012 and 2011, was $8,155.64 and $7,586.99, respectively.

The average invested market balance in the unitized pool during the years ending June 30, 2012 and 2011, was $16.182 billion and $15.177 billion, respectively.

The University follows a spending rule for its unitized investments, including funds functioning as endowment, that provides for regular increases in spending while preserving the long-term purchasing power of the endowment. Earnings available for spending are shown in operating revenue, and the balance is shown as nonoperating revenue. Amounts distributed per unit under that rule were $369.53 and $351.93 for fiscal years 2012 and 2011, respectively.

The University invests in various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

As part of its investment strategy, the University enters into transactions utilizing a variety of financial instruments and strategies, including futures, swaps, options, short sales, and forward foreign currency contracts. These financial instruments and strategies allow the University to fine-tune the asset allocation of the investment portfolio. In all cases except forward foreign currency exchange and swap contracts, these instruments are traded through securities and commodities exchanges. The forward foreign currency and swap contracts are executed with creditworthy banks and brokerage firms. At June 30, 2012, the aggregate notional values of futures contracts were $72.0 million, with an aggregate unrealized loss of $3.4 million. At June 30, 2011, the aggregate notional values of futures and equity swap contracts were $120.5 million and $35.0 million, respectively, with an aggregate unrealized loss of $4.2 million. No other contracts were held during the year ended June 30, 2012. These instruments, when recognized, are recorded at fair value and are included as either an asset or a liability depending on the rights or obligations of the contract. Realized gains or losses are recorded at the time the contract is closed.

5. ENDOWMENT

The University's endowment consists of approximately 3,800 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the University to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the University to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

ASC 958-205-45-28, *Not-for-Profit Entities—Presentation of Financial Statements—Other Presentation Matters—Classification of Donor-Restricted Endowment Funds Subject to the Uniform Prudent Management of Institutional Funds Act*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was enacted in the state of New Jersey in June 2009.

Interpretation of relevant law—The University interprets the UPMIFA as requiring the preservation of the fair value at the original gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. The University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the University and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the University
(7) The investment policies of the University

Endowment Net Asset composition by type of fund as of June 30, 2012 and 2011, is:

2012 *(dollars in thousands)*	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (2,254)	$ 8,564,874	$ 1,589,092	$ 10,151,712
Board-designated endowment funds	$ 6,210,214	-	-	6,210,214
Total	$ 6,207,960	$ 8,564,874	$ 1,589,092	$ 16,361,926

2011 *(dollars in thousands)*	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,417)	$ 8,664,736	$ 1,532,316	$ 10,195,635
Board-designated endowment funds	$ 6,273,213	-	-	6,273,213
Total	$ 6,271,796	$ 8,664,736	$ 1,532,316	$ 16,468,848

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(Continued)

Changes in Endowment Net Assets for the years ended June 30, 2012 and 2011, are:

2012 *(dollars in thousands)*	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
Endowment net assets, beginning of the year	$ 6,271,796	$ 8,664,736	$ 1,532,316	$ 16,468,848
Investment return:				
Net realized and unrealized appreciation	180,951	276,901	17,301	475,153
Reclassification for funds with deficiencies	(837)	837	-	-
Total investment return	**180,114**	**277,738**	**17,301**	**475,153**
Contributions	-	-	84,584	84,584
Appropriation of endowment assets for expenditure	(269,448)	(438,083)	-	(707,531)
Reclassifications and transfers	25,498	60,483	(45,109)	40,872
Endowment net assets, end of the year	**$ 6,207,960**	**$ 8,564,874**	**$ 1,589,092**	**$ 16,361,926**

2011 *(dollars in thousands)*	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Endowment net assets, beginning of the year	$ 5,468,711	$ 6,888,834	$ 1,425,856	$ 13,783,401
Investment return:				
Net realized and unrealized appreciation	849,986	2,017,159	21,706	2,888,851
Appreciation on funds with deficiencies	27,356	(27,356)	-	-
Total investment return	**877,342**	**1,989,803**	**21,706**	**2,888,851**
Contributions	-	67,114	90,341	157,455
Appropriation of endowment assets for expenditure	(263,422)	(400,509)	-	(663,931)
Reclassifications and transfers	189,165	119,494	(5,587)	303,072
Endowment net assets, end of the year	**$ 6,271,796**	**$ 8,664,736**	**$ 1,532,316**	**$ 16,468,848**

Funds with deficiencies—From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $2.3 million and $1.4 million at June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation of certain programs that was deemed prudent by the Board of Trustees.

In accordance with the terms of donor gift instruments, the University is permitted to reduce the balance of restricted endowments below the original amount of the gift. Subsequent investment gains are then used to restore the balance up to the fair market value of the original amount of the gift. Subsequent gains above that amount are recorded in temporarily restricted net assets.

Return objectives and risk parameters—The University has adopted investment and spending policies for endowment assets that attempt to support the University's current and future operating needs, while preserving intergenerational equity. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for donor-specified periods as well as University-designated funds. Under these policies, the endowment assets are invested in a manner that is intended to produce returns that exceed both the annual rate of spending and university inflation.

Strategies employed for achieving objectives—The vast majority of the endowment assets are actively managed by PRINCO, which is structured as a University office, but maintains its own

Board of Directors, and operates under the final authority of the University's Board of Trustees (the "Trustees").

In pursuit of the investment return objectives, PRINCO maintains an equity-biased portfolio and seeks to partner with best-in-class investment management firms across diverse asset categories.

Spending policy and how the investment objectives relate to spending policy—Each year the Trustees decide upon an amount to be spent from the endowment for the following fiscal year. In their deliberations, the Trustees use a spending framework that is designed to enable sizable amounts to be spent in a reasonably stable fashion, while allowing for reinvestment sufficient to preserve purchasing power in perpetuity. The framework targets annual spending rates of between 4.0 percent and 5.75 percent.

The endowment must seek investment returns sufficient to meet spending policy targets as well as to maintain future purchasing power without deterioration of corpus resulting from university inflation.

6. OTHER INVESTMENTS

Other investments include working capital (consisting primarily of cash and cash equivalents and U.S. Treasury securities), a small number of funds that must be separately invested due to donor or legal restrictions, planned giving investments, bond proceeds awaiting drawdown, and local real estate holdings expected to be liquidated strategically over the next several years. A summary of other investments at fair value at June 30, 2012 and 2011, is as follows:

(dollars in millions)	**2012**	**2011**
Working capital	$ 277.7	$ 104.1
Planned giving investments	191.7	189.1
Bond proceeds awaiting drawdown	93.6	38.1
Strategic real estate investments	48.8	76.0
Other	1.0	4.9
Total	$ 612.8	$ 412.2

7. EDUCATIONAL AND MORTGAGE LOANS

Educational loans include donor-restricted and federally sponsored educational loans that bear mandated interest rates and repayment terms, and are subject to significant restrictions on their transfer and disposition. These loans totaled $67.5 million and $67.2 million at June 30, 2012 and 2011, respectively. Determination of the fair value of educational loans receivable could not be made without incurring excessive costs.

Through a program to attract and retain excellent faculty and senior staff, the University provides home acquisition and financing assistance on residential properties in the area surrounding the University. Notes receivable from faculty and staff and co-ownership interests in the properties are included in mortgage loans and are collateralized by mortgages on those properties. These loans and interests totaled $317.7 million and $333.3 million at June 30, 2012 and 2011, respectively.

Allowance for Doubtful Loans

Management assesses the adequacy of the allowance for doubtful loans by performing evaluations of the loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of borrowers, the economic environment, the level of delinquent loans, and the value of any collateral associated with the loans. In addition to general economic conditions and other factors described above, a detailed review of the aging of loans receivable is considered in management's assessment. The level of the allowance is adjusted according to the results of management's analysis.

Loans less than 120 days delinquent are deemed to have a minimal delay in payment and are generally not written off. Loans more than 120 days delinquent are subject to standard collection practices, including litigation. Only loans that are deemed uncollectible are written off, and this occurs only after several unsuccessful collection attempts, including placement at an external collection agency. Considering the other factors discussed herein, management considers the allowance for doubtful loans at June 30, 2012 and 2011, to be prudent and reasonable.

Educational and mortgage loans receivable at June 30, 2012 and 2011, are reported net of allowances for doubtful loans of $0.8 million and $0.7 million, respectively.

8. PROMISES TO GIVE

At June 30, 2012 and 2011, the University had received from donors unconditional promises to give contributions of amounts receivable in the following periods:

(dollars in thousands)	2012	2011
Less than one year	$ 129,153	$ 75,408
One to five years	203,987	163,813
More than five years	26,004	29,766
Total	**359,144**	**268,987**
Less unamortized discount and reserve	15,024	16,880
Net amount	**$ 344,120**	**$ 252,107**

The amounts promised have been recorded after discounting the future cash flows to the present value. Current-year promises are included in revenue as additions to temporarily or permanently restricted net assets, as determined by the donors, and are included in contributions receivable at fair value based on observable ASC 820 Level 2 inputs.

In addition, at June 30, 2012, the University had received from donors promises to give $3.4 million, conditioned upon the raising of matching gifts from other sources and other criteria. These amounts will be recognized as income in the periods in which the conditions have been fulfilled.

9. FUNDS HELD IN TRUST BY OTHERS

The University is the income beneficiary of various trusts that are held and controlled by independent trustees. In addition, the University is the income beneficiary of entities that qualify as supporting organizations under Section 509(a)(3) of the U.S. Internal Revenue Code. Funds held in trust by others are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the University is notified of its existence. Funds held in trust by others, stated at fair value, amounted to $112.1 million in 2012 and $119.9 million in 2011.

10. PROPERTY

Land additions are reported at estimated market value at the date of gift, or on a cost basis. Buildings and improvements are stated at cost. Expenditures for operation and maintenance of physical plant are expensed as incurred.

Items classified as property at June 30, 2012 and 2011, consisted of the following:

(dollars in thousands)	2012	2011
Land	$ 102,346	$ 99,697
Buildings and improvements	2,988,828	2,866,280
Construction in progress	272,530	147,512
Equipment	248,238	235,613
Rare books	85,281	82,154
Library books, periodicals, and bindings	265,161	260,336
Fine art objects	106,737	104,189
Total property	**$ 4,069,121**	**$ 3,795,781**
Accumulated depreciation	(1,077,382)	(1,006,706)
Total	**$ 2,991,739**	**$ 2,789,075**

Equipment, rare books, library books, periodicals, and bindings are stated at cost. Equipment includes items purchased with federal government funds; an indeterminate portion of those items are expected to be transferred to the University at the termination of the respective grant or contract. In addition to making purchases with University funds, the University, since its inception, has received a substantial number of fine art objects from individual gifts and bequests. Art objects acquired through June 30, 1973, are carried at insurable values at that date because it is not practicable to determine the historical cost or market value at the date of gift. Art objects acquired subsequent to June 30, 1973, are recorded at cost or fair value at the date of gift.

The University uses componentized depreciation for buildings and building improvements used for research. The costs of research facilities are separated into building shell, service system, and fixed equipment components that are separately depreciated.

Annual depreciation is calculated on the straight-line method over useful lives ranging from 15 to 50 years for buildings and improvements, 30 years for library books, and 10 and 15 years for equipment.

11. CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Under ASC 410-20, *Asset Retirement and Environmental Obligations—Asset Retirement Obligations,* companies must accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional.

The University has identified asbestos abatement as a conditional asset retirement obligation. Asbestos abatement was estimated using site-specific surveys where available and a per-square-foot estimate based on historical cost where surveys were unavailable. The estimate is recorded as a liability and as an increase to the asset, and the capitalized portion is depreciated over the remaining useful life of the asset. The asset retirement obligation that is included in accrued liabilities was $19.5 million and $13.7 million at June 30, 2012 and 2011, respectively, and accretion expense on the asset retirement obligation was $0.5 million and $0.6 million for the years ended June 30, 2012 and 2011, respectively.

12. INCOME TAXES

ASC 740, *Income Taxes,* prescribes the minimum recognition threshold a tax position must meet in connection with accounting for uncertainties in income tax positions taken or expected to be taken by an entity before being measured and recognized in the financial statements. The University continues to evaluate its tax positions pursuant to the principles of ASC 740, and has determined that there is no material impact on the University's financial statements.

The University is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related income. The University files U.S. federal and various state and local tax returns. The statute of limitations on the University's U.S. federal tax returns remains open for the years ended June 30, 2009, through the present.

13. DEFERRED REVENUES

Deferred revenues primarily represent advance receipts relating to the University's real estate leasing activities. Such amounts are amortized over the term of the related leases.

14. INDEBTEDNESS TO THIRD PARTIES

At June 30, 2012 and 2011, the University's debt consisted of taxable bonds, loans through the New Jersey Educational Facilities Authority (NJEFA), commercial paper, various parent loans with the SLM Corporation ("Sallie Mae") and a national bank, and a note with a regional bank, as follows:

(dollars in thousands)	2012	2011
Taxable Revenue Bonds		
January 14, 2009 Series A, 4.95% and 5.70%, due March 2019 and March 2039, net of unamortized discount of $2,966 and $3,075	$ 997,035	$ 996,925
NJEFA Revenue Bonds		
February 15, 1999 Series A, 4.80%, due July 2012, net of unamortized discount of $0 and $13	-	1,227
June 26, 2003 Series E, 3.94%, due July 2028, including unamortized premium of $2,698 and $2,998	53,738	57,553
September 18, 2003 Series D, 3.73%, due July 2019, including unamortized premium of $4,794 and $5,478	71,658	78,098
July 21, 2004 Series D, 4.50%, due July 2029, including unamortized premium of $1,664 and $2,080	25,073	30,605
March 18, 2005 Series A, 4.40%, due July 2030, including unamortized premium of $2,994 and $3,421	132,954	136,741
June 8, 2005 Series B, 4.24% due July 2035, including unamortized premium of $1,502 and $1,617	75,472	78,022
May 22, 2006 Series D, 4.39%, due July 2031, including unamortized premium of $716 and $753	65,381	67,538
August 3, 2006 Series E, 4.50%, due July 2027, including unamortized premium of $72 and $77	92,182	92,322
June 6, 2007 Series E, 4.53%, due July 2037, including unamortized premium of $4,297 and $4,469	299,822	306,334
May 22, 2007 Series F, 4.39%, due July 2030, including unamortized premium of $719 and $759	67,864	68,024
September 10, 2008 Series J, 4.39%, due July 2038, including unamortized premium of $4,092 and $4,250	240,322	245,250
October 28, 2008 Series K, 4.36%, due July 2023, including unamortized premium of $5,446 and $5,941	167,201	180,176
January 20, 2010 Series B, 4.03%, due July 2040, including unamortized premium of $11,354 and $11,759	256,829	261,759
June 15, 2011 Series B, 4.09%, due July 2041, including unamortized premium of $15,815	265,815	-
NJEFA Dormitory Safety Trust Fund Bonds		
August 14, 2001 Series A, 4.24%, due January 2016	3,329	4,161
NJEFA Capital Improvement Fund Bonds		
August 1, 2000 Series A, 5.72%, due August 2020	1,192	1,292
Commercial Paper	20,400	19,530
Parent Loans	45,743	48,666
Notes	1,414	1,584
Total	**$ 2,883,424**	**$ 2,675,807**

The proceeds of NJEFA loans were used primarily for new construction, renovation, and rehabilitation of University facilities, annual major maintenance, and purchases of capital equipment.

Subsequent to June 30, 2012, the University privately placed Senior Unsecured Taxable Notes in the amount of $170 million for student housing and other taxable needs. The University intends to issue additional bonds in the future.

The full faith and credit of the University is pledged in all loan agreements with the NJEFA.

Loans with Sallie Mae are used for the parent loan program. At June 30, 2011, the amount outstanding was $0.1 million, at rates ranging from 0.7 percent to 7.4 percent. No amounts were outstanding at June 30, 2012. As collateral, the University pledges these parent loans and additional student loans for which Sallie Mae provides a second market. In fiscal 1999, the University entered into a loan facility with a national bank to provide funding currently authorized up to $70 million for the parent loan program. Terms to the borrowers are similar to the Sallie Mae program in that fixed or variable rates may be selected on a pass-through basis; terms may be as long as 14 years. At June 30, 2012 and 2011, the balances outstanding were $45.7 million and $48.6 million, respectively, at rates ranging from 0.7 percent to 7.4 percent.

In fiscal year 1998, a commercial paper program was authorized as an initial step of financing to provide construction funds for approved capital projects. The proceeds permit construction to proceed until permanent financing from gifts or other sources is made available. The program has been authorized to a maximum level of $300 million. At June 30, 2012 and 2011, $20.4 million and $19.5 million, respectively, were issued through the NJEFA on a tax-exempt basis to the investors. Maturities of the debt were from 35 to 187 days, and the nominal interest rates at June 30, 2012 and 2011, were 0.1 percent and 0.2 percent, respectively.

Principal payments for each of the next five years and thereafter on debt outstanding at June 30, 2012, excluding commercial paper, are as follows:

(dollars in thousands)	**Principal Payments**
2013	$ 76,445
2014	67,165
2015	69,560
2016	72,239
2017	74,313
Thereafter	2,450,106
Subtotal	**2,809,828**
Unamortized premium	53,196
Net long-term debt	**$ 2,863,024**

The fair value of the University's long-term debt is estimated based on current notes offered for the same or similar issues with similar security, terms, and maturities. At June 30, 2012, the carrying value and the estimated fair value of the University's long-term debt, excluding commercial paper, were $2,863.0 million and $3,339.7 million, respectively. At June 30, 2011, the carrying value and the estimated fair value of the University's long-term debt, excluding commercial paper, were $2,656.3 million and $2,887.5 million, respectively.

The University has committed bank lines of credit totaling $200 million, under which the University may borrow on an unsecured basis at agreed-upon rates. There were $7.2 million and $10.9 million in letters of credit outstanding under these credit facilities at June 30, 2012 and 2011, respectively.

15. EMPLOYEE BENEFIT PLANS

All faculty and staff who meet specific employment requirements participate in a defined contribution plan, which invests in the Teachers Insurance and Annuity Association and College Retirement Equities Fund and Vanguard Fiduciary Trust Funds. The University's contributions were $48.9 million and $46.1 million for the years ended June 30, 2012 and 2011, respectively.

Postretirement Benefits Other Than Pensions

ASC 715, *Compensation—Retirement Benefits*, requires the recognition of a defined benefit postretirement plan's funded status as either an asset or a liability on the statement of financial position. Actuarial gains or losses and prior service costs or credits that arise during the period must be recognized as a component of unrestricted net assets. The University calculates its Accumulated Postretirement Benefit Obligation (APBO) in accordance with ASC 715, which was initially elected in 1993 to be amortized over 20 years. The University continues to recognize the cost of providing postretirement benefits for employees over the period of their working years.

The University provides single coverage health insurance to its retirees who meet certain eligibility requirements. Participants may purchase additional dependent or premium coverage. The accounting for the plan anticipates future cost-sharing changes to the written plan that are consistent with the University's expressed intent to increase retiree contributions in line with medical costs.

The benefit costs for the years ended June 30, 2012 and 2011, consisted of the following:

(dollars in thousands)	2012	2011
Service cost	$ 11,756	$ 11,667
Interest cost	14,998	14,885
Net amortization of transition amount	3,374	3,374
Total	$ 30,128	$ 29,926

The APBO at June 30, 2012 and 2011, consisted of actuarially determined obligations to the following categories of employees:

(dollars in thousands)	2012	2011
Retirees	$ 106,814	$ 109,106
Active employees eligible to retire	83,838	78,281
Other active participants	121,299	102,569
Total	$ 311,951	$ 289,956

As of June 30, 2012 and 2011, the APBO was unfunded.

An assumed discount rate of 4.00 percent and 5.25 percent was used to calculate the APBO at June 30, 2012 and 2011, respectively. The assumed health care cost trend rates used to calculate the APBO at June 30, 2011, were 8.0 percent for prescription drug claims, declining by 0.6 percent per year until the long-term trend rate of 5.0 percent is reached, and 6.0 percent for medical claims, declining by 0.2 percent per year until the long-term trend rate of 5.0 percent is reached. An increase of 1 percent in the cost trend rate would raise the APBO to $372.6 million and $343.4 million and cause the service and interest cost components of the net periodic cost to be increased by $6.3 million and $6.2 million for the years ended June 30, 2012 and 2011, respectively. A decrease of 1 percent in the cost trend rate would decrease the APBO to $264.3 million and $247.6 million and cause the service and interest cost components of the net period cost to be decreased by $4.8 million and $4.8 million for the years ended June 30, 2012 and 2011, respectively.

Postretirement plan benefit payments for fiscal years 2013 through 2017 are expected to range from $8.1 million to $10.5 million per year, with aggregate expected payments of $66.5 million for fiscal years 2018 through 2022. These amounts reflect the total benefits expected to be paid from the plan and exclude the participants' share of the cost. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service.

The University has applied for and is receiving the federal subsidy as provided for in the Medicare Modernization Act (MMA), and has recognized the effect of the MMA in the calculation of its postretirement benefit obligation as of June 30, 2012 and 2011.

16. NET ASSETS

Net assets are categorized as unrestricted, temporarily restricted, and permanently restricted. Unrestricted net assets are derived from gifts and other institutional resources that are not subject to explicit donor-imposed restrictions. The unrestricted category also includes income and gains on these funds. Included in the total is the net investment in plant and equipment. Certain net assets classified as unrestricted for external reporting purposes are designated for specific purposes or uses under the internal operating budget practices of the University.

Notes to Consolidated Financial Statements

(Continued)

Restricted net assets are generally established by donors in support of schools or departments of the University, often for specific purposes such as professorships, research, faculty support, scholarships and fellowships, athletics, the library, the art museum, building construction, and other specific purposes. Temporarily restricted net assets include gifts, pledges, trusts and remainder interests, and income and gains that can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions and time restrictions imposed by donors or implied by the nature of the gift, or by the interpretations of law. Temporary restrictions are normally released upon the passage of time or the incurrence of expenditures that fulfill the donor-specified purpose. Permanently restricted net assets include gifts, pledges, trusts and remainder interests, and income and gains that are required by donor-imposed restrictions to be permanently retained. Investment earnings are spent for general or specific purposes in accordance with donor wishes, based on the University's endowment spending rule.

17. NATURAL CLASSIFICATION OF EXPENSES

Operating expenses incurred for the years ended June 30, 2012 and 2011, were as follows:

(dollars in thousands)	**2012**	**2011**
Salaries and wages	$ 519,911	$ 497,709
Employee benefits	179,840	160,568
Purchased services	53,237	52,145
Supplies	55,593	56,641
Space and occupancy	74,624	79,453
Other expenses	182,648	173,347
Other student aid	35,411	34,296
Depreciation	104,164	108,033
Interest	112,026	124,321
Total	**$ 1,317,454**	**$ 1,286,513**

18. COMMITMENTS AND CONTINGENCIES

At June 30, 2012, the University had authorized major renovation and capital construction projects for more than $929.2 million. Of the total, approximately $582.4 million had not yet been expended.

Minimum operating lease commitments at June 30, 2012, under agreements to lease office space are as follows:

(dollars in thousands)	**Lease Payments**
2013	$ 3,840
2014	3,840
2015	4,080
2016	4,080
2017	4,080
Thereafter	30,400
Total	**$ 50,320**

The University has entered into certain agreements to guarantee the debt of others. Under these agreements, if the principal obligor defaults on the debt, the University may be required to satisfy all or part of the remaining obligation. The total amount of these guarantees was $26.9 million at June 30, 2012.

The University is subject to certain legal claims that have arisen in the normal course of operations. In the opinion of management, the ultimate outcome of these actions will not have a material effect on the University's financial position, statement of activities, or cash flows.

19. SUBSEQUENT EVENTS

The University has evaluated subsequent events through November 30, 2012, and determined that there were no subsequent events requiring adjustment or disclosure in the consolidated financial statements, except as described in note 14.

Trustees of the University[1]

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[1] As of 12/1/12. The years in parentheses refer to the end of the term as trustee. An asterisk indicates a graduate degree.

[2] As of 12/1/12. An asterisk indicates a graduate degree.

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